

1 UNITED STATES BANKRUPTCY COURT

2 SOUTHERN DISTRICT OF NEW YORK

3 Case No. 08-13555-scc

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5 In the Matter of:

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7 LEHMAN BROTHERS HOLDINGS INC.,

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9 Debtor.

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12 U.S. Bankruptcy Court

13 One Bowling Green

14 New York, NY 10004

15

16 February 13, 2017

17 10:10 AM

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21 B E F O R E :

22 HON SHELLEY C. CHAPMAN

23 U.S. BANKRUPTCY JUDGE

24

25 ECRO: KAREN / RACHEL

1     Hearing re: Trial on Lehman's Objection to Claims of QVT  
2     (Doc # 17468 Debtors' One Hundred Fifty-Fifth Omnibus  
3     Objection to Claims)

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25     Transcribed by: Sonya Ledanski Hyde

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15 THOMAS KNOX, WITNESS

16 JOEL WOLLMAN, WITNESS

17

18 ALSO PRESENT TELEPHONICALLY:

19

20 CHARLES WITTMANN-TODD

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1 P R O C E E D I N G S

2 THE COURT: Ready when you are.

3 MR. TAMBE: Your Honor, there are some  
4 housekeeping matters. I think any one of them tangentially  
5 affects Mr. Knox, so our proposal would be, I think Mr. Knox  
6 is in the room ready to testify.

7 THE COURT: Okay.

8 MR. TAMBE: We expect that to be a relatively  
9 short examination, so perhaps we can deal with the  
10 examination and then turn to the issues. But I think we do  
11 need to address the issues before some of the other  
12 witnesses come up.

13 THE COURT: Okay.

14 MR. TRACEY: Sure. That's perfectly fine.

15 THE COURT: Okay.

16 MR. TRACEY: And maybe I should give the Court  
17 just a sense of where we're going in terms of witnesses.

18 THE COURT: Yeah, that would be great.

19 MR. TRACEY: Okay.

20 THE COURT: I'm looking at the revised list you  
21 gave me the week before last.

22 MR. TRACEY: Yeah, well, this is changing, you  
23 know, on a regular basis --

24 THE COURT: Sure.

25 MR. TRACEY: -- as we try to shorten our case.

1 And so, I actually have another new one.

2 THE COURT: Okay, that'd be great.

3 MR. TRACEY: May I approach?

4 THE COURT: Yes. Okay. Can we have one of those?

5 Yes, we can.

6 MS. SAWYER: Oh, I'm sorry, this is different than  
7 what we were sent over the weekend, right?

8 MR. TRACEY: Yeah, we eliminated some additional  
9 (indiscernible) --

10 MS. SAWYER: Oh okay.

11 THE COURT: You're good?

12 MR. TRACEY: We're good.

13 THE COURT: Okay.

14 MS. SAWYER: It's third, I think, right? Yeah,  
15 the third, because we got the second over the weekend.

16 THE COURT: This is -- I'm looking at the third  
17 amended testimony schedule.

18 MR. TRACEY: So for today, we have two witnesses,  
19 Tom Knox and Joel Wollman.

20 THE COURT: Okay.

21 MR. TRACEY: We anticipate that that will probably  
22 take the entire day.

23 THE COURT: Okay.

24 MR. TRACEY: Then we have Professor Pfleiderer and  
25 he's coming before two of our -- well, I guess just one

1 trader, Mr. Send.

2 THE COURT: Mr. Send, right?

3 MR. TRACEY: And the reason for that is Professor  
4 Pfleiderer has a hard stop on Wednesday afternoon at 4:30.

5 THE COURT: Okay.

6 MR. TRACEY: So we wanted to just make sure that  
7 we left enough time for direct and cross. And if he  
8 finishes early, we can fit someone else in, but we felt we  
9 could start it with him on Tuesday morning. And then, we  
10 have, on --

11 THE COURT: Wait. So I'm sorry. So you're going  
12 to -- don't we have to finish Mr. Lowman on Tuesday morning?

13 MR. TRACEY: We probably will spill into the  
14 morning. We'll try to --

15 THE COURT: Okay.

16 MR. TRACEY: -- get them done today, but if we  
17 don't --

18 THE COURT: All right.

19 MR. TRACEY: -- we'll spill into the morning.

20 THE COURT: All right. And just to remind you, I  
21 have to be up at the circuit Tuesday for a one o'clock. So  
22 if I leave, if I run out at 12:30, I'll make it back by two  
23 on the dot.

24 MR. TRACEY: Okay, perfect.

25 THE COURT: Okay? So just carve out 12:30 to two

1 on Tuesday. Okay?

2 MR. TRACEY: Okay. And then --

3 THE COURT: Takes us through the week, pretty  
4 much.

5 MR. TAMBE: You mean on Tuesday?

6 MR. TRACEY: Yeah, if there's any day that Your  
7 Honor would like to start at 9:30, we'd be happy to do that.

8 THE COURT: I'd be happy to start at 9:30 on  
9 Tuesday.

10 MR. TRACEY: Okay.

11 THE COURT: Does that help?

12 MR. TRACEY: Yeah, that would help. Thank you.

13 And then, on Thursday, we have Julian Sale and Yi Cen. And  
14 on Friday, we have Mr. Neumann, who is a former Lehman  
15 employee, no longer associated with the estate. And he,  
16 just in terms of timing, needs to leave by two p.m. on  
17 Friday, so we'll try to arrange for that.

18 And so, we've managed to eliminate, at least for  
19 the time being, we're planning on right now, not calling  
20 Ashish Shah or Mr. Kathpalia --

21 THE COURT: Okay.

22 MR. TRACEY: -- who were on the witness list  
23 before. We may need to call them, depending on how the  
24 evidence comes in, but right now, we're taking them out of  
25 the schedule.



1 THE COURT: All right.

2 MR. TRACEY: So I think we've managed to shorten  
3 our case moderately there. And so, we would be able to,  
4 we'd think, finish our case by February 20 -- March 1st,  
5 we're hopeful.

6 THE COURT: Okay. Ms. Sawyer?

7 MS. SAWYER: We just -- this is the first we've  
8 seen of this schedule as well.

9 THE COURT: Sure.

10 MS. SAWYER: And so, you know, it's a lot of  
11 witnesses for us to be covering on our end. So I understand  
12 that they're reserving their rights to maybe call Mr. Shah  
13 and Mr. Kathpalia in the future, but I don't want them  
14 showing up on Wednesday or Thursday. I want to be able to  
15 have some comfort that this schedule is holding for this  
16 week.

17 MR. TRACEY: We're not -- yeah, absolutely.

18 MS. SAWYER: Okay. The other witness, which also  
19 seems to -- there's, I think, two other witnesses, which  
20 also are not listed on this. I think there's a Mr.  
21 Whitticom, and Mr. McNiff and Ms. Fang. So actually, I  
22 think there's three. And so, I want to understand,  
23 especially in terms of whether those are witnesses that are  
24 going to be on a future list or whether those are also  
25 witnesses that have been taken off the list.

1 MR. TRACEY: Right now, our plan is not to call  
2 them, but we reserve the right to call them, if necessary.  
3 But again, we're going to give you plenty of notice, we're -  
4 - any time we update the schedule, we'll give it to you.  
5 And we're not planning on calling any of those witnesses  
6 next week.

7 MS. SAWYER: This week?

8 MR. TRACEY: This week, excuse me.

9 MS. SAWYER: Okay, all right.

10 MR. TRACEY: Okay. That's the schedule.

11 THE COURT: Okay, yes, Ms. Sawyer?

12 MS. SAWYER: We also have updated exhibits from  
13 the weekend, so if --

14 THE COURT: Okay.

15 MS. SAWYER: -- we could approach, I set have a  
16 set of them.

17 THE COURT: Okay, sure. All right. Okay. So we  
18 need binders for this morning's witness?

19 MR. TRACEY: Yes.

20 THE COURT: All right.

21 MR. REGAN: Good morning, Your Honor.

22 THE COURT: Good morning, Mr. Regan.

23 MR. REGAN: QVT calls Thomas Knox.

24 THE COURT: All right. Please come up, Mr. Knox.  
25 Good morning, would you stand, please, and raise your right

1 hand? Do you solemnly swear or affirm that all the  
2 testimony you're about to give before the Court shall be the  
3 truth, the whole truth and nothing but the truth? Very  
4 good. Have a seat. Make yourself comfortable. If you need  
5 a break at any time, just let us know. All right?

6 MR. KNOX: Thank you.

7 THE COURT: Thank you.

8 DIRECT EXAMINATION OF MR. THOMAS KNOX

9 BY MR. REGAN:

10 Q Good morning, Mr. Knox. Would you please introduce  
11 yourself for the record?

12 A My name is Thomas Knox, but I go by Tom.

13 Q I'd like to briefly go over your educational history  
14 and work background. Did you attend college?

15 A I did. I graduated from Harvard College with a  
16 Bachelor's Degree in Applied Mathematics, Summa Cum Laude  
17 and Phi Beta Kappa.

18 Q And when was that?

19 A 1999.

20 Q Do you have any graduate or advanced degrees?

21 A I do. I also have a Master's Degree in Applied  
22 Mathematics and a PhD in Business Economics, both from  
23 Harvard University.

24 Q When did you receive those degrees?

25 A I received a Master's Degree in Applied Mathematics in

1 1999 at the same time as my Bachelor's, and a PhD in  
2 Business Economics in 2003, both from Harvard University.

3 Q And what did you do for work after receiving your PhD?

4 A I worked at the University of Chicago Graduate School  
5 of Business.

6 Q And what did you do there?

7 A I was an Assistant Professor of Finance.

8 Q And how long did you work at the University of Chicago?

9 A Roughly a year.

10 Q And what did you do after that?

11 A I worked at Bracebridge Capital.

12 Q What is Bracebridge Capital?

13 A It's a Boston-based investment manager.

14 Q And what position did you have at Bracebridge?

15 A I was a Vice President.

16 Q And what were your duties and responsibilities as a  
17 Vice President at Bracebridge?

18 A Front office quantitative modeling work and work on  
19 risk management models.

20 Q How long were you with Bracebridge?

21 A From 2004 to 2007.

22 Q And where did you go at that point?

23 A QVT Financial.

24 Q How long were you with QVT Financial?

25 A Roughly two years.

1 Q And what were your responsibilities at QVT?

2 A I began as a Senior Analyst/Trader and was promoted  
3 during the course of my employment to Portfolio Manager.

4 Q Were you ever a partner at QVT?

5 A No.

6 Q And were you ever a managing member at QVT?

7 A No.

8 Q In your role as a portfolio manager, did you focus on  
9 any particular types of investments?

10 A Emerging markets, fixed income investments were my  
11 primary focus.

12 Q And can you explain for the Court what you mean by  
13 emerging markets, fixed income investments?

14 A Investments in or depending on the performance of hard  
15 currency debt, issued by emerging market entities, primarily  
16 sovereigns.

17 Q Are you currently employed by QVT?

18 A No, I'm not.

19 Q When did you leave?

20 A I left in 2000 and -- pardon me, in 2009.

21 Q Why did you leave QVT?

22 A I had an excellent opportunity to join my next  
23 employer.

24 Q And at the time you left QVT, did you enter into any  
25 separation or a severance agreement?

1 A No.

2 Q Do you currently have any consulting agreement with  
3 QVT?

4 A I don't.

5 Q Do you have any ownership or financial interest in  
6 QVT's claim in this case?

7 A I do not.

8 Q So after leaving QVT, what did you do for work next?

9 A I worked at Convexity Capital Management, a Boston-  
10 based invest -- oh, sorry -- Convexity Capital Management, a  
11 Boston-based investment manager.

12 Q And how long were you with Convexity?

13 A About seven and a half years.

14 Q And what were your duties and responsibilities there?

15 A I began as an analyst and was promoted to quantitative  
16 portfolio manager during the course of my employment.

17 Q And did you focus on any particular types of  
18 investments in that role?

19 A My primary focal points were in interest rate related  
20 investments and foreign exchange investments.

21 Q Okay. What did you do after leaving Convexity?

22 A I joined my current employer, Arrowstreet Capital.

23 Q And what are your duties and responsibilities there?

24 A I'm a manager in the research group.

25 Q So turning your attention to September 2008, you were

1 employed by QVT at that point in time?

2 A Yes, I was.

3 Q And focusing on the period prior to September 15th,  
4 when Lehman Brothers holding filed, during that time period,  
5 did QVT personnel become concerned at any point regarding  
6 Lehman's financial condition?

7 A As I recall, there was concern about Lehman's financial  
8 condition.

9 Q And what, if anything, were you asked to do, to address  
10 those concerns?

11 A As I remember, I was asked to explore novations and  
12 movements of bonds away from Lehman. So that would include  
13 unwinding credit default swaps positions with Lehman and  
14 entering into them with alternative counterparties, as well  
15 as moving bond positions away from them that were on repo  
16 with Lehman.

17 Q What do you mean by bond positions on repo with Lehman?

18 A A repo is a repurchase agreement, typically used as a  
19 funding arrangement for bonds.

20 Q And which Lehman entities did QVT have repo  
21 relationships with?

22 A As I recall, LBIE, it might also have been LBI.

23 Q And which Lehman entities did QVT have credit default  
24 swaps with?

25 A The entity that I recall is LBSF.

1 Q Did you pursue novations in connection with the  
2 concerns that QVT had about Lehman's financial condition?

3 A I did attempt them.

4 Q And were any successful?

5 A No. They were either unavailable or prohibitively  
6 expensive.

7 Q Moving your attention forward to the weekend before  
8 Lehman's filing, September 13th and September 14th. What,  
9 if anything, were you personally doing during that weekend,  
10 with regard to QVT's Lehman exposure?

11 A As I recall, I was called into the office on the  
12 Sunday, which would've been September 14th. I believe there  
13 was a regulatory mandate to participate in an emergency  
14 trading session in an attempt to trade around Lehman,  
15 thereby avoiding any systemic implications of Lehman's  
16 failure as a derivatives counterparty.

17 Q And did QVT participate in that emergency trading  
18 session?

19 A Not to the best of my recollection.

20 Q Do you know what the outcome of that emergency trading  
21 session was?

22 A As I remember it, it was regarded as a failure.

23 Q During that weekend, September 13th and 14th, did you  
24 participate in any meetings that related to the termination  
25 of QVT's ISDA agreement with Lehman?



1 A Not that I recall.

2 Q So moving forward to the next day, September 15th,  
3 2008. What is the first thing you remember about that day?

4 A Being shocked and horrified that Lehman Brothers had  
5 failed.

6 Q And what impact, if any, did the Lehman Brothers filing  
7 have on your investment area at the time in emerging  
8 markets?

9 A To the best of my recollection, all of the spreads that  
10 I was concerned widened substantially, meaning that the  
11 expensive purchasing protection via credit default swaps  
12 rose and the prices of bonds fell.

13 Q On that day, were you personally involved in any  
14 discussions at QVT regarding whether or not the firm should  
15 terminate its ISDA agreements with Lehman?

16 A We sat on an open trading floor, so discussions were  
17 ongoing, as I remember them. That's the best of my  
18 recollection.

19 Q To your knowledge, was any decision made as to whether  
20 or not QVT should terminate its ISDA agreement with Lehman  
21 on September 15th?

22 A Yes, I believe there was a decision.

23 Q And what was that decision?

24 A To proceed to termination.

25 Q And who made that decision?

1 A I'm not sure. I don't recall precisely. My best  
2 recollection is that Nick Brumm and (indiscernible) were  
3 like to be involved in that discussion.

4 Q Did you personally participate in making that decision?

5 A No, not that I recall.

6 Q Were you involved in any discussions on September 15th,  
7 regarding the date that QVT should choose as the early  
8 termination date, under the ISDA agreement?

9 A Again, there was an open trading floor, but I don't  
10 recall being involved in any such discussion.

11 Q And do you know whether a decision was made as to which  
12 date should be designated the early termination date?

13 A Yes, I believe a decision was made.

14 Q And who made the decision?

15 A I believe that would've been the managing members.

16 Q Did you participate in making a decision?

17 A No, I have no recollection of doing so.

18 Q Do you know what date was designated as the early  
19 termination date?

20 A I believe it was September 15th, 2008.

21 Q And to your knowledge, was there any discussion on that  
22 day as to whether any other date should be designated the  
23 early termination date?

24 A Not that I recall.

25 Q To your knowledge, did QVT deliver a termination notice

1 to Lehman on September 15th?

2 A I don't recall.

3 Q Were you aware that, as part of the ISDA termination  
4 process, QVT was required to seek market quotation from  
5 referenced market makers?

6 A Not to my recollection.

7 Q And did you discuss that process with anyone at QVT on  
8 September 15th?

9 A I don't recall doing so, but I believe that Nick Brumm  
10 and Joel were involved in, understanding those dynamics.

11 Q To your knowledge, did QVT put together market  
12 quotation language that day, September 15th?

13 A Yes, I believe QVT did.

14 Q And who put that language together?

15 A I think Nick was primarily involved in that. That's  
16 the best recollection I have.

17 Q And were you personally responsible for sending out any  
18 of QVT's positions for market quotation requests?

19 A I was.

20 Q Which positions were you responsible for sending out?

21 A Emerging markets, fixed income positions.

22 Q What time did you send out those requests?

23 A I don't remember.

24 Q If you could turn in your binder to Exhibit 2147?

25 A Yes.

1 Q We could bring up the native attachment,  
2 (indiscernible). Do you recognize Exhibit 2147?

3 A I do. Pardon me. I do. This is --

4 Q What is the cover email?

5 A This is an email from Joel Wollman to me, labeled --  
6 pardon me, BWIC or OWIC the date being September 15th, 2008  
7 at three p.m., EM only, so emerging markets only.

8 Q And if you could turn your attention to the attachment,  
9 which should be on your screen natively.

10 A Yes.

11 Q What information is contained in the attachment?

12 A The tab, which is opened now, is labeled  
13 "Instructions." And it begins with the line, "BWIC/OWIC.  
14 Bids wanted in competition/Offers wanted in competition."  
15 The next line reads: "Request for market quotations."

16 Q Is this the market quotation language that you referred  
17 to earlier?

18 A I believe it is.

19 Q And is there another tab in the attachment here?

20 A Yes, there's a tab labeled "EM."

21 Q And what information is shown in that sheet?

22 A This is a list of entities, maturities, strikes,  
23 notional amounts, sectors, currencies and tags of BWIC or  
24 OWIC.

25 Q And are these emerging market positions that you were

1 responsible for trading at QVT?

2 A I believe they were.

3 Q If you could turn to Exhibit JX104 in your binder?

4 A Yes.

5 Q What is this exhibit?

6 A This is an email from me to myself, requesting the  
7 recipient to see the attached sheet. It -- there is an  
8 attachment, which is BWIC OWIC for EM.

9 Q And if you could turn to the second page of Exhibit  
10 104?

11 A Mm hmm.

12 Q You see the metadata there?

13 A I do.

14 Q And does the metadata indicate that you sent this  
15 exhibit to anyone other than yourself?

16 A Yes. The metadata indicates that I sent this to  
17 Chandra Metzler at Deutsche Bank, Miryam Bechtle at JP  
18 Morgan, Michael Marian at Morgan Stanley, and Andrew  
19 Schlesinger at UBS, as well as Lehman at QVT dot com.

20 Q Okay. What time did you send Exhibit 104?

21 A 3:20 p.m.

22 Q And does Exhibit 104 have any attachments?

23 A Yes, it seems to.

24 Q What are the attachments?

25 A An Excel Workbook labeled BWIC OWIC, September 15th,

1 2008, 3 p.m., EM only.

2 Q And if you could turn to the page that ends in 797 in  
3 the lower right-hand corner?

4 A Yes. Yes.

5 Q What information is contained on that page of the  
6 attachment?

7 A I apologize.

8 Q Do you have a page Bates numbered QVT Fund 04414797?

9 A I do. It, it's labeled "File produced natively."  
10 Forgive me. You're going forward. Mm hmm.

11 Q What information is shown on that page?

12 A I see the request from market quotations language that  
13 we looked at earlier.

14 Q If you could turn to the next page in the exhibit?

15 A Mm hmm. Yes.

16 Q What information is shown there?

17 A I see a list of entities, maturities, strikes, notional  
18 amounts, sectors, currencies and BWIC OWIC indicators.

19 Q And is Exhibit 104 the market quotation request that  
20 you sent out on September 15th?

21 A To the best of my recollection.

22 Q Who chose the dealers that received this market  
23 quotation request?

24 A As I remember, I did.

25 Q How did you go about choosing these particular dealers?

1 A I was attempting to select dealers with whom business  
2 was done by QVT, whom I knew to provide liquidity in  
3 emerging markets, and from whom I felt there was the best  
4 chance to receive actionable quotes.

5 Q If you could turn your attention back to the market  
6 quotation language? And in particular, the second paragraph  
7 in the market quotation language?

8 A Yes.

9 Q What types of quotes was QVT seeking, when it used this  
10 language?

11 MR. TAMBE: Objection. Lack of foundation that he  
12 developed this language. The language says what it does. I  
13 don't think he has any understanding of the language.

14 THE COURT: All right. Do you want to try it  
15 again?

16 MR. REGAN: We can back up a step.

17 THE COURT: Sure.

18 Q At the time you sent out of the market quotation  
19 requests that are contained in Exhibit 104, did you review  
20 the attachments to that exhibit?

21 A I did.

22 Q And did you review the market quotation language?

23 A I believe I did.

24 Q And with regards to the second paragraph that's  
25 highlighted on your screen now, what types of quotations was

1 QVT seeking in the market quotation request?

2 MR. TAMBE: Same objection, Your Honor.

3 THE COURT: It is the same objection.

4 MR. REGAN: He said he read it, he understood it.  
5 He was the one sending out the requests.

6 THE COURT: Why don't you ask some more questions  
7 about his understanding?

8 Q At the time you sent out Exhibit 104, based on your  
9 communications within QVT, did you have any understanding as  
10 to what types of quotes QVT was intending to seek, when it  
11 said market quotation requests?

12 A Actionable quotes.

13 Q And is that intention reflected in the language that's  
14 highlighted on your screen now?

15 A I believe it is.

16 THE COURT: Mr. Knox, can I ask you, what do you  
17 mean by actionable quotes?

18 MR. KNOX: Rather than a merely indicative level,  
19 a level which would allow QVT to actually execute a trade at  
20 the level given.

21 THE COURT: All right, thank you.

22 Q In the next paragraph, in the market quotation  
23 language, can you read that for the record, please?

24 A The highlighted paragraph?

25 Q The third paragraph, yeah.



1 A "Please provide market quotations as of 4 p.m. New York  
2 time on September 15th, 2008 in writing by return email to  
3 Lehman at QVT dot com, based on the actual notional amounts,  
4 and other relevant information set forth in this spreadsheet  
5 in respect of each transaction."

6 Q What, if anything, did you understand that QVT was  
7 asking for, when it requested quotes as of 4 p.m., on  
8 September 15th?

9 A The quotes at which the recipient dealer would actually  
10 have been willing to execute as of 4 p.m.

11 Q Was 4 p.m. a deadline?

12 A Not that I recall.

13 Q Turning to the fourth paragraph in the market quotation  
14 language, what does that paragraph provide?

15 A Should I read this paragraph for comments?

16 Q If you would -- if you could read it first?

17 A "In the event that you are unable, for any reason, to  
18 provide a bid or offer expressed as an amount in the  
19 relevant currency, please provide a curve of one, three,  
20 five, seven and 10 year points, and the appropriate recovery  
21 level, as well as whether the unwind level is based on a  
22 flat or curved interpolation. Each such curve and related  
23 information should reflect the levels at which you would bid  
24 or offer for the full notional size of each transaction set  
25 forth in this spreadsheet."

1 Q What is your understanding of why QVT included that  
2 language in the market quotation request?

3 A I believe this was intended to ease the operational  
4 burden on the receiving dealers in providing actionable  
5 quotes as of 4 p.m. Since on that day, markets were  
6 extremely chaotic and the action of computing a cash value  
7 or a present value for a credit default swap might have been  
8 challenging, given the logistical problems faced by dealers.

9 Q So did QVT want actionable quotes or curves?

10 A Actionable quotes.

11 Q And so, what was the purpose again of including the  
12 curve language?

13 A The curve would have been an easier indication for a  
14 dealer to provide, while still encompassing the information  
15 necessary to compute a PV.

16 Q And by PV you mean?

17 A The value of the trade.

18 Q PV short for present value?

19 A Forgive me, yes.

20 Q If you could turn back to the cover email on Exhibit  
21 104? In the subject line you wrote "EM CDS OWIC." Now what  
22 did you mean by that language?

23 A Emerging Markets, Credit Default Swap, Offers Wanted In  
24 Competition.

25 Q And what is an OWIC?

1 A A list of positions for which offers are wanted in  
2 competition, meaning that the list will be shown to multiple  
3 potential counterparties.

4 Q And what, if anything, does an OWIC have to do with the  
5 market quotation request?

6 MR. TAMBE: Lack of foundation, Your Honor.  
7 Objection.

8 MR. REGAN: He's testified what his intended  
9 purpose was in sending out the market quotation request. He  
10 used the language OWIC. He put them together.

11 THE COURT: Okay, Mr. Regan, when there's an  
12 objection, the point is not for you to explain to the  
13 witness what the answers are.

14 MR. REGAN: I thought he already had.

15 THE COURT: So Mr. Tambe?

16 MR. TAMBE: I don't think there's any foundation  
17 as to his familiarity with market quotation. He didn't --

18 THE COURT: That was the point of the objection  
19 about five questions ago. I don't think it's been cured.  
20 So now that you're linking up OWIC with the MQ, that's what  
21 was wrong. All right? You want to try that?

22 MR. REGAN: Sure. We could back up a step.

23 THE COURT: Sure.

24 Q Mr. Knox, you sent out market quotation requests to  
25 certain broker dealers for emerging market positions,

1 correct?

2 A To the best of my recollection.

3 Q And in doing that, did you come to have any  
4 understanding as to what a market quotation request was?

5 A I believe that at the time that was explained to me.

6 Q And what was your understanding of what a market  
7 quotation request was?

8 A That quotations -- actionable quotations were required  
9 from multiple dealers.

10 Q And did you have an understanding of what an OWIC was  
11 on September 15th, 2008?

12 A Yes.

13 Q And was there any reason that you identified this email  
14 and subject line as involving an OWIC, when the attachment  
15 referred to market quotation requests?

16 A Yes. The goal was to produce actionable quotes.

17 Q In the text of your cover email to Exhibit 104, you  
18 wrote, "Please see the attached sheet. We would appreciate  
19 your responses by 4 p.m. today." Did you intend that  
20 language, "By 4 p.m. today," to be a deadline?

21 A Not that I recall.

22 Q At the time you sent out Exhibit 104, did you believe  
23 that you had given the referenced market makers sufficient  
24 time to respond that day?

25 MR. TAMBE: Objection, lack of foundation. Lack

1 of foundation.

2 MR. REGAN: Just asking about his belief.

3 THE COURT: I think you need to lay some  
4 foundation.

5 Q At the time you sent out Exhibit 104, did you  
6 anticipate that reference market makers would respond on  
7 September 15th?

8 A Yes, I believe I did.

9 Q And did you have any understanding as to whether it  
10 would take referenced market makers some period of time to  
11 respond to your requests?

12 MR. TAMBE: Same objection. I don't think any  
13 foundation's been laid on any of this.

14 THE COURT: Why don't you come up for a second? I  
15 don't recall the last question, Mr. Regan. Perhaps you do?

16 MR. REGAN: I can -- I don't think I recall it,  
17 either.

18 THE COURT: Okay.

19 MR. REGAN: I can back up a step and see if I can  
20 address some of the concerns.

21 THE COURT: All right.

22 Q Mr. Knox, when you were sending out Exhibit 104, I  
23 believe you testified that your intention was to seek  
24 actionable quotations?

25 A That's correct.

1 Q And do you have any understanding as to what that would  
2 require a dealer to do, in order to respond to you?

3 MR. TAMBE: Again, it's lack of foundation. I  
4 think he's again calling for speculation.

5 THE COURT: No, this one -- it's his understanding  
6 of whether he has an understanding of what it would require  
7 dealers to do. You can answer that. Go ahead.

8 MR. REGAN: Thank you, Your Honor.

9 A I believe it would require a dealer to compute a value  
10 for a trade, and display that value to QVT. That value  
11 being something that could actually have been traded.

12 Q And at the time you sent Exhibit 104, did you have any  
13 understanding as to how a dealer would go about doing that  
14 computation?

15 A I believe I did.

16 Q And what would that understanding be?

17 A A typical calculation in computing the present value or  
18 trade value of a credit default swap position would involve  
19 extracting survival probabilities from a curve of credit  
20 default spreads at different maturities, and a recovery rate  
21 assumption. Those survival probabilities would then be used  
22 to compute the value of the credit default swap position at  
23 hand.

24 Q And at the time you sent Exhibit 104, did you have any  
25 understanding as to what period of time it would take a

1 dealer to do a computation, such as the one you described?

2 A I believe my understanding at that time was that  
3 computation was not unduly lengthy.

4 Q And at the time you sent Exhibit 104, did you  
5 anticipate that the referenced market makers would respond  
6 to you at any point in time?

7 A Yes. I believed they would.

8 Q Did you anticipate that the referenced market makers  
9 would respond to you on September 4th -- September 15th,  
10 2008?

11 MR. TAMBE: Your Honor, he's been leading for a  
12 while. Time to stop the dance.

13 THE COURT: Okay. Not only is it leading, but try  
14 it again a different way.

15 Q At the time you sent Exhibit 104, did you have any  
16 reason to believe that you would not receive responses on  
17 September 15th?

18 THE COURT: It's the same thing, but just  
19 inserting a negative.

20 MR. REGAN: I'm just asking about his expectation  
21 or understanding at the time he sent the document.

22 THE COURT: You're asking if he had reason to  
23 believe in what timeframe the dealers were to respond.  
24 Right?

25 MR. REGAN: Or if they would respond at all.

1 THE COURT: Same thing. It's his reason to  
2 believe, right?

3 MR. REGAN: Yes.

4 THE COURT: Okay. And is there a foundation for  
5 that?

6 MR. REGAN: I think he testified that the dealers  
7 would have to do a computation, that that would take some  
8 period of time.

9 THE COURT: Okay.

10 MR. REGAN: And --

11 THE COURT: All right, why don't you put one more  
12 question? Mr. Tambe, I'm going to leave it to you to take  
13 it up on cross.

14 MR. TAMBE: Okay, fine. Thank you, Your Honor.

15 Q At the time you sent Exhibit 104, based on your  
16 understanding of what you were asking the dealers to do, did  
17 you believe that you had allowed the dealers sufficient time  
18 to respond that day?

19 MR. TAMBE: Again, I'm going to have an objection  
20 to this. Whether he believed he allowed dealers sufficient  
21 time to respond or they -- just, the lack of foundation gets  
22 worse and worse with each variation on this question.

23 THE COURT: I think we're like -- we're not really  
24 -- we're having a disconnect here. So why don't we come on  
25 up and try one more time? This is no reflection on you, Mr.



1 Knox.

2 MR. KNOX: Thank you, Your Honor.

3 THE COURT: All right?

4 Q Let's move forward. Mr. Knox, do you recall whether  
5 any of the dealers responded to your market quotation  
6 request on September 15th?

7 A I don't remember.

8 Q If you could turn in your exhibit binder to Exhibit  
9 1277? It should be a PDF email in the exhibit binder and  
10 then, native attachment. If you could bring up the  
11 attachment on the screen? Do you recognize Exhibit 1277?

12 A Yes, I do.

13 Q Now what is it?

14 A This is an email from Andrew Schlesinger at UBS to  
15 Lehman at QVT dot com. It appears to be a response to the  
16 request for market quotations.

17 Q And what time did Mr. Schlesinger send his response?

18 A At 3:35 p.m.

19 Q What time had you sent your initial request?

20 A Forgive me. What exhibit was that?

21 Q JX-104.

22 A 3:20 p.m.

23 Q And did Mr. Schlesinger provide any quotations with his  
24 response? If you can bring back up the attachment to 1277?

25 A If he had, they would be on the EM Tab. It looks as

1       though the positions listed in the original request for  
2       market quotations are listed here. And below them, there is  
3       a set of numbers labeled Argentina Curve, using 25 percent  
4       recovery, and not a flat curve.

5       Q       And were those numbers provided by Mr. Schlesinger?

6       A       I believe they were.

7       Q       And when Mr. Schlesinger uses the expression, "Using a  
8       25 percent recovery," did you have any understanding as to  
9       what he meant by that?

10      A       Yes, I did. That's an assumption as to the value of  
11      deliverable obligations in the event of a credit event, the  
12      entity referenced by the CDX.

13      Q       And did you have any understanding on September 15th,  
14      as to whether QVT could transact at the prices listed in  
15      Exhibit 1277?

16      A       I don't recall.

17      Q       If you could turn to JX-62 in your binder? Do you  
18      recognize this document?

19      A       Yes, this is an email from Andrew Schlesinger at UBS to  
20      me and to Lehman, which I assume is the address Lehman at  
21      QVT dot com.

22      Q       And what information does Mr. Schlesinger convey to you  
23      in this email?

24      A       The body of his email reads: "I'm unable to respond in  
25      providing market quotations, satisfying your requests by 4

1 p.m. today."

2 Q And do you have any knowledge or understanding as to  
3 why Mr. Schlesinger sent that language after sending the  
4 prior email that we just looked at, Exhibit 1277?

5 MR. TAMBE: Objection, foundation, Your Honor.

6 THE COURT: That's sustained.

7 Q Did you receive Mr. Schlesinger's email that is Exhibit  
8 JX-62 on September 15th?

9 A I believe I did.

10 Q And you also received the prior email that we looked  
11 at, Exhibit 1277?

12 A I believe I was aware, though, if I recall correctly,  
13 it was addressed to Lehman at QVT.

14 Q And did you have any understanding as to why Mr.  
15 Schlesinger sent that second email, JX-62?

16 MR. TAMBE: The same objection, Your Honor.

17 THE COURT: It's the same objection.

18 MR. REGAN: And we're just asking for his  
19 understanding as to why --

20 THE COURT: If you know, Mr. Knox, you can  
21 testify. The same --

22 MR. TAMBE: My objection would be speculation. I  
23 mean, he'd just be speculating because --

24 THE COURT: Unless he happens to know.

25 MR. TAMBE: Right.

1 Q What, if anything, did you understand, when you  
2 received Exhibit JX-62?

3 THE COURT: Well, that won't do it. If you have  
4 an understanding based on a fact or set of facts, that's  
5 what we would like to hear, rather than your assumption or  
6 your speculation, all right?

7 MR. KNOX: Thank you, Your Honor.

8 THE COURT: Okay, go ahead.

9 A I don't remember.

10 THE COURT: Very good. Thank you.

11 Q If you could turn to Exhibit JX-63, please? Do you  
12 recognize this document?

13 A Yes. This is an email from Miryam Bechtle at JP Morgan  
14 to me and Lehman, which I assume is Lehman at QVT dot com.  
15 It reads, "Tom, please find below mid curve indications for  
16 Venezuela, Ecuador and Argentina. Given the illiquidity in  
17 the market, tough to tell."

18 Q Do you recognize Exhibit 63 to be Ms. Bechtle's  
19 response to your market quotation request?

20 A I do.

21 Q And what time did Ms. Bechtle send that response?

22 A At 5:07 p.m.

23 Q Did you or to your knowledge, did anyone else at QVT  
24 reject Ms. Bechtle's response because it was sent after 4  
25 p.m.?

1 A Not to the best of my recollection.

2 Q Did Ms. Bechtle provide any market quotations with her  
3 response?

4 A These appear to be mid levels, which would explicitly  
5 exclude the possibility of actionable quotes.

6 Q And what are mid levels, based on your understanding?

7 A The level in between at the midpoint between a bid and  
8 an offer, as opposed to an offer or a bid which would be an  
9 actionable level.

10 Q And did Ms. Bechtle provide any other market commentary  
11 with her response?

12 A I believe in the portion that I read, she mentioned,  
13 "Given the illiquidity in the market, tough to tell."

14 Q And what understanding, if any, did you have, as to  
15 what Ms. Bechtle meant by that language?

16 MR. TAMBE: Objection. Lack of foundation again.

17 THE COURT: Same qualification. You can answer,  
18 Mr. Knox.

19 MR. KNOX: Thank you, Your Honor. And please tell  
20 me if I go off on this part --

21 THE COURT: No worries.

22 Q Just what you understood at the time.

23 A This was the most chaotic day of trading that I can  
24 recall, and I believe that this was an expression of being  
25 swamped by the business of trading on that day and the

1 illiquidity of the market.

2 Q Did you have any other communications with the  
3 reference market makers on September 15th?

4 A Not that I remember.

5 Q If you could turn to Exhibit 64 in your binder? Do you  
6 recognize this document?

7 A Yes. This is an email from Michael Marian at Morgan  
8 Stanley to me.

9 Q And who is Michael Marian?

10 A He was sales coverage for emerging markets fixed income  
11 at Morgan Stanley.

12 Q And was he one of the individuals to whom you sent the  
13 market quotation request?

14 A Yes, based on the previous exhibit.

15 Q And what was Mr. Marian's question in Exhibit JX-64?

16 A "What are the effective dates?"

17 Q Do you know whether you responded to Mr. Marian's  
18 question?

19 A I don't remember.

20 Q At the time you received this email, did you have any  
21 understanding as to what Mr. Marian was asking with this  
22 question?

23 A An effective date would be the beginning date of a credit  
24 default swap transaction.

25 Q If you could turn to Exhibit CX-1290 in your binder?

1 Do you recognize this exhibit?

2 A I do.

3 Q And what is it?

4 A This is an email from Michael Marian at Morgan Stanley  
5 to me. It reads, "Sent. Give me a quick call."

6 Q And are there other emails shown in Exhibit 1290?

7 A Yes, this appears to be a chain of emails.

8 Q And can you walk us through the sequence of emails in  
9 this chain?

10 A Turning the page over, it appears that the first email  
11 in this chain was my request for market quotations. Michael  
12 Marian seems to have forwarded that to Dalinda Guerrero.

13 Q Who is Ms. Guerrero?

14 A I believe she was an employee at Morgan Stanley at that  
15 time. Michael Marian then sent to me a list in tabular  
16 format, the first column being B/S, the next column, NMM,  
17 the third column, a ridge effective, the fourth column,  
18 maturity, and the fifth column, PV.

19 Q And what time did Mr. Marian send that email?

20 A The email, including tabular information?

21 Q Yes.

22 A At 6:40 p.m.

23 Q And did you understand that email to be Mr. Marian's  
24 response to your market quotation request?

25 A Yes.

1 Q Did you or to your knowledge, did anyone else at QVT  
2 reject this response because of the time it was sent?

3 A Not to the best of my recollection.

4 Q In Mr. Marian's 6:40 p.m. email, he has the column,  
5 ORIG Effective, do you see that?

6 A I do.

7 Q What understanding, if any, did you have as to what  
8 information was being conveyed in that column?

9 A That column appears to reference the starting date of a  
10 credit default swap transaction, its original effective  
11 date.

12 Q Two columns over, Mr. Marian has a column labeled PV.  
13 Do you see that?

14 A I do.

15 Q Did you have any understanding as to what Mr. Marian  
16 meant in the PV column?

17 A Yes. Those reference the values of trades, present  
18 values.

19 Q In the top email in this chain that is Exhibit 1290,  
20 Mr. Marian asked you to give him a call. Do you know  
21 whether you did that on September 15th?

22 A I don't remember.

23 Q Was QVT able to trade at the prices referenced in Mr.  
24 Marian's email?

25 MR. TAMBE: Objection, lack of foundation.



1 Q To your knowledge?

2 A I -- my general recollection -- sorry.

3 THE COURT: Hold on one second. Rephrase the  
4 question. It's unclear to me what you're asking.

5 Q At the time you received Mr. Marian's 6:40 p.m. email,  
6 did you have any understanding as to whether QVT could trade  
7 the positions described in that email at the prices that Mr.  
8 Marian lists?

9 MR. TAMBE: And the question's still unclear.

10 THE COURT: Well, let's put a time around your  
11 question, and then I'm going to allow it, all right?

12 Q On September 15th, at the time you received Mr.  
13 Marian's email?

14 A Did you --

15 Q Who could trade, based on his email?

16 A My general recollection is that we did not receive  
17 actionable quotes, but I don't remember specifically  
18 engaging with Mr. Marian.

19 Q If you could turn to Exhibit 1292 in your binder?

20 THE COURT: Could you -- before you leave this  
21 one, would you ask, Exhibit 1290 --

22 MR. KNOX: Yes, Your Honor.

23 THE COURT: -- in the three blocks, there's a  
24 column that's in the Venezuela and Argentina spread blocks  
25 that's not in the Ecuador block. It's labeled "Original

1 spread." Can you explain what that is and if you know, why  
2 that's left out of the Ecuador blocks?

3 MR. KNOX: I'll take those from the bottom, if I  
4 may.

5 THE COURT: Okay.

6 MR. KNOX: I don't know why it's not present in  
7 the Ecuador block.

8 THE COURT: Okay.

9 MR. KNOX: I would think that it should be.

10 THE COURT: Okay. And what does original spread  
11 mean?

12 MR. KNOX: That would be the spread of the credit  
13 default swap being valued.

14 THE COURT: Being valued, okay. Thank you.

15 MR. KNOX: Thank you, Your Honor.

16 Q If you could turn to Exhibit 1292 in your binder? Do  
17 you recognize this document?

18 A Yes, this is an email from Chandra Metzler at Deutsche  
19 Bank to Lehman, which I believe is Lehman at QVT.com. The  
20 subject is "DB Lat M CDS Closes 15 (indiscernible) 2008."

21 Q And do you recognize Exhibit 1292 to be Ms. Metzler's  
22 response to your market quotation request?

23 A I believe it was.

24 Q And what time did Ms. Metzler send that response?

25 A 8:20 p.m.

1 Q And did Ms. Metzler indicate any time as to -- did Ms.  
2 Metzler indicate any as of time for the prices she provided?

3 A There is a row of hyphens followed by 4 p.m. levels and  
4 another sequence of hyphens. I take that to mean that these  
5 are levels as of 4 p.m.

6 Q And what types of quotations, if any, did Ms. Metzler  
7 provide in this response?

8 A These are closing curve indications.

9 Q And what lead you to conclude that these were closing  
10 curve indications?

11 A I know that there is a list of entities beginning with  
12 Brazil, then RG for Argentina, RG Quanto, which I believe to  
13 be Argentina protection denominated in Euros, Columbia,  
14 Peru, Panama, Venezuela, and so on, down through Ecuador.  
15 And in each row, beginning with such an entity label,  
16 there's a list of what appear to be bid and offer spreads  
17 for a sequence of years. One year, two year, three year,  
18 five year and 10 year for each of those entities. And  
19 there's also a recovery listed for some, but not all of  
20 these entities.

21 Q And did you or anyone else at QVT reject Ms. Metzler's  
22 response because of the time at which it was sent?

23 A Not to the best of my recollection.

24 Q For the emerging market position that you sent out for  
25 market quotations, how many positions did QVT receive three

1 or more responses on?

2 A I don't believe any of them.

3 Q After QVT terminated its positions with Lehman on  
4 September 15th, did QVT enter into any trades to replace the  
5 positions that it had lost?

6 A Yes, I remember that there were replacement trades.

7 Q And were you personally involved in the effort to enter  
8 into replacement trades?

9 A I was.

10 Q And what was your involvement?

11 A My recollection is that I was involved in executing  
12 replacement transactions in the Argentina and Venezuela.

13 Q And when did you enter into those replacement trades?

14 A I believe it was the day after, so that would be  
15 September 16th.

16 Q And what were the terms of the replacement trades you  
17 entered into?

18 A I don't remember them precisely, but they were, I  
19 believe, all five-year trades. And I don't believe that was  
20 by choice. My recollection is that five-year was the only  
21 point that the market would trade at that time.

22 Q If I could direct your attention to Exhibit 2108, which  
23 is a native file, if you could click on the Lehman positions  
24 master?

25 A Okay.

1 Q Do you recognize this document?

2 A Yes, I do.

3 Q And what is it?

4 A This is a spreadsheet used in the computation of QVT's  
5 claim.

6 Q And to your knowledge, who at QVT created this  
7 spreadsheet?

8 A I believe Joel Wollman was most involved in the  
9 creation of this spreadsheet.

10 Q And what was it used for?

11 A It was used for the calculation of the values of the  
12 positions submitted as part of the claim.

13 Q If you can go to the Tab labeled EM, (indiscernible)  
14 witness (indiscernible) spreadsheet?

15 A I think I may have it.

16 Q What information, if any, is shown on Sheet EM, with  
17 regards to replacement trades?

18 A Scrolling down, I see only the top. This appears to be  
19 a list of replacement trades. I'm looking here at Cell A36  
20 of the EM Tab. I see a list in column A, beginning  
21 immediately below Row 38, which is labeled TIFI for QVT of  
22 TIFIs, QVT identifiers. I believe there are six Argentina  
23 identifiers and two Venezuela identifiers.

24 Q And are those the replacement trades that you entered  
25 into?

1 A I believe they are.

2 Q And you can -- can you tell from this spreadsheet what  
3 the terms of the replacement trades were?

4 A The maturity is listed in column C, beginning in Row 39  
5 and continuing down through Row 46. The strike, that is the  
6 basis points per annum paid in a purchase or protection  
7 occurs in Column D, beginning in Row 39 and descending  
8 through Row 46. The notional amount appears in Column E and  
9 again goes from Row 39 through Row 46.

10 Q And what was the total notional amount of these trades?

11 A Across both reference entities, \$80 million.

12 Q (indiscernible) --

13 A Sorry. Across both reference entities, \$80 million.

14 Q If I could direct your attention to Exhibit 1412, which  
15 is also a native spreadsheet, Exhibit 1412, the one ending  
16 in 217. Do you recognize Exhibit 1412?

17 A These appear to be confirmations of credit default swap  
18 trades.

19 Q And can you tell from Exhibit 1412 what confirmations  
20 they are?

21 A They appear to be --

22 MR. TAMBE: Objection, Your Honor?

23 THE COURT: Yes?

24 MR. TAMBE: He's described the form of document.

25 I don't think there's any foundation that he knows these

1 particular ones, nor do we have a foundation as to where  
2 these particular documents came from.

3 THE COURT: Yeah, that's a good question.

4 Q I think you said these appeared to be forms of  
5 confirmations, is that correct?

6 A I believe I said that these were -- these appeared to  
7 be confirmations of credit default swap transactions.

8 Q And can you tell from Exhibit 1412 whether they're  
9 confirmations for any particular credit default swap  
10 transactions?

11 MR. TAMBE: Again, Your Honor, all he's doing is  
12 reading the information on the screen. We have --

13 THE COURT: Yeah, I -- I'm lost.

14 Q Do you recognize Exhibit 1412 to be confirmations of  
15 replacement trades that you did?

16 A Sorry.

17 MR. TAMBE: But then, that would be leading,  
18 Judge.

19 THE COURT: Okay. Mr. Tambe, we're going to have  
20 to give Mr. Knox a (indiscernible) here. I just want to  
21 know how this -- can you undo what you did to open this  
22 cell? How do we get --?

23 MR. REGAN: Close 1412?

24 THE COURT: Yeah. So --

25 MR. REGAN: Close 1412.

1 THE COURT: Now -- that's not what I meant. How  
2 do we go from 1412 to the confirm that you had on the  
3 screen?

4 MR. REGAN: The -- I was going to ask that  
5 question.

6 THE COURT: Right. Well, that's the question.  
7 That, I think that is the question.

8 MR. REGAN: 1412 has the confirm embedded in it.

9 MR. TAMBE: Okay. So now we have a real problem  
10 because we (indiscernible) --

11 THE COURT: I think you deserve a break.  
12 (indiscernible) take a short break?

13 MR. KNOX: Thank you, Your Honor.

14 THE COURT: All right? And the rules of the road  
15 are that you remain under oath, you're not to be in anyone's  
16 presence while they're discussing the case, you're not to  
17 discuss the case or your testimony with anyone. We'll  
18 resume in about 10 minutes.

19 MR. KNOX: Thank you, Your Honor.

20 THE COURT: Thank you.

21 (Break)

22 THE COURT: Please come up, Mr. Knox. Okay, Mr.  
23 Regan, ready when you are.

24 Q Mr. Knox, before the break, you testified regarding  
25 certain Venezuela and Argentina replacement trades that you



1 had done, do you recall that testimony?

2 A I do.

3 Q With regards to those replacement trades, was QVT able  
4 to replace its entire portfolio of Argentina and Venezuela  
5 CDS?

6 A Not to the best of my recollection.

7 Q And do you know why that is?

8 A I believe the market liquidity was quite poor.

9 Q Why did QVT decide to enter into Argentina and  
10 Venezuela replacement trades?

11 A We had been given misleading information regarding the  
12 location of certain bonds. Those bonds were positions held  
13 against credit default swaps as hedges in what's commonly  
14 known as a CDS bond basis trade. We believed that we still  
15 owned the bonds, and felt the need to hedge them to the  
16 extent possible with CDS, replacing the CDS that had been  
17 lost in the Lehman default.

18 Q You mention bonds held as hedges. What kinds of bonds  
19 are you referring to?

20 A Argentine and Venezuelan sovereign bonds.

21 Q And where were those bonds held?

22 A I believe those were repoed at Lehman.

23 Q And you said you were given misleading information,  
24 what did you mean by that?

25 A I believe we were given information that those bonds

1 were taken off of repo, which as I recall, was a result of  
2 our requesting that they be moved to another counterparty.

3 Q And when you say moved to another counterparty, is  
4 there any particular counterpart that you're referring to?

5 A To the best of my recollection, Deutsche Bank.

6 Q And were you involved in that process of moving the  
7 bonds from Lehman to Deutsche Bank?

8 A I was involved in the attempt to effect that transfer.

9 Q And did there come a point when Lehman indicated to you  
10 that the bonds had been transferred?

11 MR. TAMBE: Your Honor, if we could just get some  
12 specificity on the Lehman that's being indicated there?

13 Q Do you know which entity QVT had bonds with, which  
14 Lehman entity?

15 A I believe it was a repo entity. My recollection is  
16 that it was LBIE.

17 Q And did QVT communicate with LBIE with regard to  
18 potentially moving the bonds, the Argentina and Venezuela  
19 bonds that you refer to?

20 A We communicated with personnel responsible for those  
21 repos.

22 Q Personnel at the Lehman.

23 A Yes, correct.

24 Q And do you know which entity those Lehman personnel  
25 worked for?

1 A I don't.

2 Q And did there come a point in time when QVT learned  
3 that the bonds had not been transferred to Deutsche Bank?

4 A As I recall, there was a time.

5 Q And how did you come to learn that the bonds had not  
6 been transferred to Deutsche Bank?

7 A I don't remember precisely.

8 Q And what, if that, did QVT do once it learned that the  
9 bonds had not been transferred to Deutsche Bank.

10 A In the absence of a bonds, there was not a need for a  
11 CDS hedge. So the replacement trades were then unwound.

12 Q What do you mean when you say the replacement trades  
13 were unwound?

14 A Those trades were -- they were unwound, trades were  
15 done which eliminated that exposure for QVT.

16 Q And did QVT incur any costs or charges in unwinding  
17 those replacement trades?

18 A My recollection is that yes, in those transactions, QVT  
19 had to pay.

20 Q And to your knowledge, did QVT include those costs or  
21 charges in its claim against Lehman in this case?

22 A As I recall, those charges were included.

23 Q And do you know why that is?

24 A I believe that those CDS trades were regarded as being  
25 a consequence of Lehman Brothers' default. That is, if the

1 protection had not gone away as a result of Lehman's  
2 defaults in the first place, there would have been no need  
3 to enter these trades.

4 Q And do you recall who at Lehman told you that the bonds  
5 had been transferred to Deutsche Bank?

6 A I don't recall precisely.

7 Q And do you know whether Lehman provided any  
8 documentation indicating that the bonds had been transferred  
9 to Deutsche Bank.

10 A My recollection is that there as a collateral report,  
11 indicating that the bonds had been taken off of repo.

12 Q So moving forward, after the conclusion of the market  
13 quotation process, were you involved at all in the QVT's  
14 effort to calculate its claims against Lehman?

15 A To the best of my recollection, I was.

16 Q And what was your involvement in that process?

17 A I believe I was responsible for emerging markets' fixed  
18 income positions.

19 Q Who else at QVT was involved in the process?

20 A To the best of my recollection, Nick Brum, Joel  
21 Wollman, Arthur Chu, Tracy Fu, and Yi Cen.

22 Q And do you recall when this process took place?

23 A AS I recall, there were at least two weekends following  
24 Lehman's bankruptcy filing in which at least that group met  
25 in QVT's offices.

1 Q And do you recall how long those meetings lasted?

2 A I believe they were lengthy.

3 Q And was there any discussion at those meetings about  
4 any process of methodology that QVT would use to value its  
5 Lehman-facing positions?

6 A My recollection is that there was a hierarchy, with  
7 market quotation being the preferred method. And if market  
8 quotation was unavailable, replacement trades. And if that  
9 were unavailable, the best reasonable estimate of actionable  
10 levels as of 4:00 PM on September 15th, 2008.

11 Q If you could bring back up Exhibit CX-2108, in the  
12 Lehman Positions Master Tab?

13 A I have it.

14 Q Do you have (indiscernible)?

15 A I do, forgive me.

16 Q Could you go back to the Lehman Positions Master Tab?

17 A Mm hmm. And is there any way to show on this sheet  
18 which positions you were responsible for valuing?

19 Q Yes, there's a column on this sheet, the Lehman  
20 Positions Master Tab, which lists the initials of the trader  
21 responsible for the valuation of the position. I believe  
22 it's Column AQ. I'm navigating to Cell AQ3, and clicking  
23 the down arrow. There's a standard Excel filtration option,  
24 Select All is currently selected.

25 A Can you select only the positions that you value?

1 Q Yes.

2 Q And how many positions does this sheet show that you  
3 valued?

4 A I see 70 of 796 records, so 70 positions. But I would  
5 note that these positions appear to be in pairs, one TiFi  
6 for QVT, as listed in Column B. And a matched TiFi in each  
7 case for Quintessence, the Quintessence position being  
8 distinguished by the presence of a Q in between the integer  
9 near the end of the identifier and the period, exclamation  
10 point that concludes the identifier.

11 Q Is that number, 70, consistent with your recollection  
12 as to the number of positions that you valued?

13 A To the best of my recollection.

14 Q Can you summarize by category what the position that  
15 you valued were?

16 A Beginning in Row 74, these are Argentine --

17 MR. TAMBE: Objection, Your Honor.

18 THE COURT: Yes, Mr. Tambe.

19 MR. TAMBE: The following, I don't think any  
20 foundation's been laid about this witness's population of  
21 this sheet in the workbook. And our understanding is the  
22 evidence is to the contrary, that this witness did not  
23 populate this sheet. So I think we need some foundation,  
24 and he should be testifying about sheets that he populated,  
25 not that someone else populated. Otherwise, he's just

1 reading a spreadsheet.

2 THE COURT: So Mr. Knox, let me try to help.

3 Probably almost an hour ago, in response to one of Mr.

4 Regan's questions, you indicated that you believed that Mr.

5 Wollman, in large part, was responsible for the creation of

6 this spreadsheet.

7 MR. KNOX: Yes, Your Honor.

8 THE COURT: Okay, so what we're trying to do is

9 connect the dots between the entries that appear here with

10 your responsibility, and the fact that they appear here. So

11 Mr. Regan is trying -- is asking you questions about that

12 that are seeking to elicit your knowledge, rather than your

13 simply reading the spreadsheet. So if you could tell us how

14 you get from what you know to what's reflected in the master

15 spreadsheet, that would do the trick. Mr. Regan, is my

16 question okay?

17 MR. REGAN: That's a great question.

18 MR. KNOX: Forgive me, Your Honor, if I go off-

19 course. The Account Column, in A, shows the account

20 positions, TiFis appear in B, these are positions that have

21 to do with solvent CDS on Argentina, Ecuador --

22 THE COURT: Yes. So for better or worse, we've

23 spent many days with this spreadsheet now, and I think

24 everyone in the courtroom understand that. But what we're

25 trying to understand is, did you supply information to Mr.

1 Wollman, and if so, how, such that we are now looking at  
2 what we're looking at. All right?

3 MR. KNOX: Thank you, Your Honor.

4 THE COURT: Okay.

5 MR. KNOX: If I could navigate to Tab EM, this is  
6 a tab that was responsible for. To the best of my  
7 recollection, this represents work that I did. Here we see  
8 a number of positions, Argentina, Ecuador, and Venezuela,  
9 and characteristics of those positions, the entity referred  
10 to by the credit default swap, and so on. The -- forgive  
11 me, Your Honor, would you like to --

12 THE COURT: No, that's okay. I'm going to hand it  
13 back to Mr. Regan.

14 Q Mr. Knox, did you have a process that you used to value  
15 the emerging market positions that you referred to?

16 A Yes, I believe we did.

17 Q And to your knowledge, was that process memorialized or  
18 recorded in any way?

19 A Yes. For the potions which I was responsible for  
20 computing values of, the primary memorialization would be in  
21 the Tabs EM and CDS Curves Used.

22 Q And do you know how those tabs were created?

23 A Yes, I believe that I created them. CDS Curves Used  
24 summarizes a base curve for Argentina, starting in Cell C8,  
25 continuing through Cell D12. This is labeled as an offer



1 curve in USD from Deutsche Bank on September 15th, 2008.

2 Below that appears a weighted average spread at which we  
3 replaced, using Argentina five-year, on September 16th.

4 Q Did you provide these tabs to Mr. Wollman?

5 A I believe I did.

6 Q And MR. Wollman incorporated them into the workbook,  
7 this version here?

8 A That's my recollection.

9 Q If you could go back to Lehman Positions Master Tab?  
10 And if that's still filtered to show --

11 THE COURT: Can we hold on for a second, please?

12 Mr. Tracey, I want you, too.

13 (Off The Record)

14 Q So is the Lehman Positions Master still filtered for  
15 the trades that you were responsible for valuing?

16 A I believe it is.

17 Q Can you summarize for the Court by category, what were  
18 the different types of positions that you were responsible  
19 for?

20 A Sovereign CDS on the hard-currency debt, Argentina,  
21 Venezuela, and Ecuador, and also CDS indices on emerging  
22 market credits, CDX, the series number, and EM>

23 Q And without going through the spreadsheet, can you  
24 describe for the Court what the process was for valuing the  
25 Argentina positions?

1 A Not able to use market quotation, so went down the  
2 hierarchy of replacement trade. But we wanted to be  
3 thoughtful, and reasoned about using the curve information  
4 that we had at our disposal, in conjunction with those  
5 replacement trades. May I navigate?

6 Q We'll go through the spreadsheet in a minute, but can  
7 you tell the Court what you meant by that reasoned process?

8 A The shape of a curve of CDS spreads influences the  
9 valuation of an existing CDS position, so rather than simply  
10 using the trades which were done as replacement trades,  
11 which were all five-year trades, my recollection being that  
12 that was all that was available in the market at the time,  
13 we attempted to incorporate the curve information, and the  
14 prior indication w had received by parallel-shifting that  
15 curve, that is, moving each point in that curve up by the  
16 same amount, so that the five-year point matched the  
17 weighted average five-year spread of the replacement trades  
18 that were executed.

19 Q And is that process that you described reflected in  
20 Exhibit 2108 in any way?

21 A May I navigate? Yes, it is.

22 Q Can you show the Court how that process is reflected in  
23 Exhibit 2108 using the first Argentine position listed in  
24 Cell B74, as an example?

25 A Yes, that position is Argent-100920\_DS65 -- oh, sorry.

1 It's Argent-100920\_DS65.!, that's the TiFi corresponding to  
2 the QVT position. I'm changing tabs to the EM tab. In Cell  
3 A2, we see the same TiFi. Scrolling to the right, we see  
4 value from CDSW in local currency in Cell AL2. Scrolling  
5 further, we see AO value from CDSW in USD. The need for  
6 these two columns was that some of the positions were  
7 denominated in Euros.

8 Q How are these values determined?

9 A These were determined by using a previously-obtained  
10 indicative curve, and shifting those levels in parallel, so  
11 shifting each point on the curve by the same amount, so that  
12 the five-year point on that curve matched the weighted  
13 average spread that was actually obtained in replacement  
14 trades.

15 Q And is there a sheet on Exhibit 2108 that shows how you  
16 did that?

17 A Yes, I'm navigating to CDS Curves Used. The earlier  
18 indicative curve appears in Cells C8 through D12. Below  
19 that, in Cell C15, we see the weighted average spread at  
20 which replacement trades actually took place, all of those  
21 replacement trades being five-year. The difference between  
22 that weighted average spread and the five-year point of the  
23 original indicative curve appears in Cell C18, and that  
24 difference is additively applied to each of the points of  
25 the earlier indication, to result in the curve in Cell C22

1 through D26. This curve, in Cell C22 through D26, is then  
2 interpolated for a four- and a seven-year point. The  
3 results of those interpolations will appear in Cells D28 and  
4 D29. I believe those were based on internal QVT analytics.

5 That entire operation is then used to input curve  
6 data into a Bloomberg CDSW screen. The reason for going to  
7 that extra length was that it is a very standard method of  
8 valuation. So rather than using any internal analytics in  
9 order to compute the value of the position, a CDSW screen on  
10 Bloomberg was used, which would have been available to any  
11 Bloomberg subscriber.

12 Q And that Bloomberg calculation you refer to is  
13 reflected in the EM tab that we looked at a moment ago?

14 A It is. The full calculation is reflected in Column AO  
15 of the EM tab, labeled "Value from CDSW in USD".

16 Q And do the numbers in this EM tab tie out to the  
17 numbers in the agreement position's master spreadsheet?

18 A I see 1,153,468 spot 84 in Cell AO2. In Lehman  
19 Positions Master, forgive me, I see the market value here of  
20 1,37 spot 5,431. The reason those numbers are not  
21 identical, navigating back to the EM tab, is the allocation  
22 from misleading settle in Column AQ. If we go to AU, we see  
23 -- pardon me, in the Tab EM, we go to Cell AU2, then we see,  
24 as 1,481,336 spot 09. The only difference there ought to be  
25 DB.

1 Q What do you mean, the difference out to be DB?

2 A I was referring to the Deutsche Bank-managed account.

3 To put it another way, if you look at the notionals of the  
4 trades in Lehman Position Master, these notionals add up to  
5 18,507,000. That number is less than the 20,000,000 full  
6 notional listed in Cell E2 of the EM tab, because that 20  
7 million full notional encompasses all of the three different  
8 funds DB managed, QVT and Quintessence, and that trade value  
9 was allocated pro rata across the three.

10 Q Earlier testified that QVT incurred certain costs in  
11 unwinding replacement trades that you had done?

12 A That's correct.

13 Q And you testified that you included those cost in the  
14 Lehman claim, is that right?

15 A Yes.

16 Q How did you do that?

17 A I believe we allocated them proportionately across the  
18 positions.

19 Q There's a sheet in this exhibit called "Lehman  
20 Postilions Tom". How, if at all, does that sheet reflect  
21 your valuation process for Argentina positions?

22 A I need to filter this sheet. I'm filtering Column AQ  
23 again. This sheet records the results of the valuation from  
24 (indiscernible).

25 Q And did you create Lehman Positions Tom?

1 A Please define create.

2 Q Did you populate the data that continues in Lehman  
3 Positions Tom.

4 A As I recall, I had some role in doing so, but this  
5 template was created by Joel.

6 Q Did you provide data to fill in the template?

7 A Yes, I did.

8 Q Was the process that you used to value that first  
9 Argentina position in Row 74 the same process you used for  
10 all of the Argentina positions?

11 A Yes, it was.

12 Q If you could turn to Exhibit 1292 again? Can you  
13 compare the prices shown for the Argentina positions in  
14 Exhibit 1292, with the prices for the Argentina position  
15 that you pointed to in the EM sheet of CX-2108?

16 A I'm afraid I can't see that sheet at the moment.

17 Q If you could bring them up side by side, that would be  
18 great. All right, so I think you testified about CS1292  
19 before, what was that document?

20 A That was Deutsche Bank's response to the request for  
21 market quotation.

22 Q And did you use that response in valuing the Argentina  
23 positions in any way?

24 A I believe that response constituted the original  
25 indication, which was then parallel-shifted to match the

1 weighted average spread of the recovery trades done in five-  
2 year.

3 Q Are the prices reflected in Exhibit 1292 also reflected  
4 in CX2108?

5 A May I navigate in the sheet?

6 Q You can pull down 1292. Why don't you leave 1292 open  
7 in the hard copy, and then look at the electronic version of  
8 2108?

9 A In the CDS Curves Used tab, to execute the comparison  
10 that you requested, I would compare the right hand of the  
11 slash in each of the pairs of numbers following the real  
12 identifier RG, with the numbers that appear in Column D of  
13 the CDS Curves Used tab, beginning at Cell D8, and going  
14 down through Cell D12. Doing so, I see Cell 950 as the one-  
15 year offer level from Exhibit 1292 in Argentina. And I see  
16 950 also in the one-year point in the spreadsheet to the  
17 right. Continuing, 970, 970 for the two-year point, 980,  
18 980 for the three-year point, 1000, and 1000 for the five-  
19 year point, 1015, and 1015 for the ten-year point. I  
20 believe they do match.

21 Q If you could turn back to 2108 in the EM sheet for a  
22 moment? In Cell A23, there's an indication "not from  
23 original list". Do you have any understanding as to what  
24 that means?

25 A My recollection is that these were positions that did

1 not go out in the original request for market quotations

2 Q And do you know why those positions do not go out?

3 A My general recollection is that these positions existed  
4 in other accounts. That is, they were not my day-to-day  
5 responsibility to oversee. That may have contributed to  
6 some confusion.

7 Q If you could pull down 1292, and just bring up 2108?  
8 And if you could go back to the Lehman position's master  
9 tab? Putting the spreadsheet aside for a moment, did you  
10 have a process that you used to value the Venezuela  
11 positions?

12 A Yes, aside from the unwind fees, it was the same  
13 process that was used for Argentina.

14 Q And that process involved replacement trades in some  
15 way?

16 A It did.

17 Q How so?

18 A As for Argentina, an initial indicative offer curve was  
19 shifted in parallel, so that each maturity point on that  
20 curve was shifted by the same amount, in order to make the  
21 five-year point of the resulting curve match the weighted  
22 average spread that had been obtained in replacement  
23 executions, all of which, as I recall, were in the five-year  
24 point.

25 Q And if you could turn back to 1292 in your binder?



1 Does Exhibit 1292 contain the curve data for Venezuela that  
2 you just referred to?

3 A I believe it does.

4 Q And is there any way to confirm that by looking at the  
5 Curves Used sheet?

6 A I'm navigating the CDS Curves Used, and scrolling to  
7 Cells N8 through O12. This was the initial indicative  
8 Venezuela curve, which was then shifted in parallel to  
9 obtain the curve used for valuation. Checking the levels in  
10 that initial indicative Venezuela curve, they do appear to  
11 match those that we see in Exhibit CX-1292. 875 in the one  
12 year, 905 in the two-year, 925 in the three-year, 940 in the  
13 five-year, and 955 in the 10-year.

14 Q And did you have a process for evaluating the Ecuador  
15 positions?

16 A As I recall, they were not replacement trades done in  
17 those positions. So rather than shifting an original  
18 indicative curve to match a replacement trade weighted  
19 average spread, a curve was used.

20 Q If you could go back to Exhibit 2108 in the Lehman  
21 Postilions Master Tab?

22 A Mm hmm.

23 Q You can take down 1292. Can you filter that again for  
24 the positions that you were responsible for?

25 A Yes.

1 Q And the Ecuador positions begin at Row 240, is that  
2 right?

3 A That's correct.

4 Q Using the position that is listed in Cell B240, can you  
5 show the Court how your valuation process is reflected in  
6 Exhibit 2108?

7 A Yes. Looking at the identifier in Cell B240, that is  
8 ECUA-130320\_DS5.!, that's the QVT part of this trade. I'm  
9 now going to navigate to the CDS Curves Used tab. I'm  
10 looking at the Cells beginning with Z4. There's a depiction  
11 of an Ecuador curve. It states that the curve was an offer  
12 curve in USD, in Deutsche Bank, on September 16th, 2008.

13 Q And how did that offer curve translate into a claim  
14 value for the Ecuador positions?

15 A As with Argentina and Venezuela, a four-year, and  
16 seven-year point were interpolated. I believe that was  
17 because those points were required as inputs to the CDSW  
18 screen. The CDSW screen was then used in order to value the  
19 positions.

20 Q And is that process reflected in Exhibit 2108 anywhere?

21 A I will turn to Tab EM, where that process is  
22 memorialized. In Row 16, which corresponds to the TiFi that  
23 we looked at, and Column AU, so that's AU16, the same  
24 appears in AO, because there was no allocation from  
25 (indiscernible).

1 Q And how does that data tie back to the Lehman  
2 Postilions Master Tab?

3 A So this is \$1,598,015.39. That is for the full 10  
4 million notional as listed in Column E, Cell E16. So we  
5 should not expect that exact number when we look at only the  
6 QVT piece, or only the Quintessence piece. But scrolling  
7 back to Lehman Postilions Master, so the QVT component of  
8 that was 1,318,363, and the difference is just due to the  
9 fact that QVT had 8,250,000 notional with this trade, rather  
10 than the full 10 million notional which was valued.

11 Q And which entities, if any, had the other part of the  
12 10 million trade?

13 A I believe that would have been Quintessence, the TiFi  
14 including the lowercase q, and the Deutsche Bank-managed  
15 account.

16 Q And was the methodology used for that position the same  
17 as all Ecuador positions?

18 A Yes.

19 Q If you could turn to Exhibit 2094 in your binder? What  
20 is Exhibit 2094?

21 A Exhibit 2094 is an email from my Bloomberg address to  
22 Lehman, which I assume is Lehman@QVT.com, detailing Deutsche  
23 Bank's Latin American CDS closes on September 16th, 2008.

24 Q And did you use the data in Exhibit 2094 in connection  
25 with valuing your Ecuador positions in any way?

1 A I believe this was the offer curve used for the Ecuador  
2 valuation.

3 Q And is there any way in Exhibit 2108 to confirm that?

4 A It would be by comparing the email to CDS Curves Used.  
5 We would compare the number on the right-hand side of the  
6 slash, and each of the pairs of numbers following the  
7 identifier Ecuador, as highlighted in yellow on the email,  
8 with the corresponding number in Column AA of the CDS Curves  
9 Used tab. The one-year point being 1500, the two-year 1457,  
10 the three-year 1432, the five-year 1387, and the 10-year,  
11 1347. They do match.

12 Q I believe you testified earlier that you also valued  
13 certain index positions, is that correct?

14 A As I recall.

15 Q And were those emerging markets index positions?

16 A I believe those were CDX EM positions, so CDX indices  
17 were the underliers for emerging market credits.

18 Q And what was your process in valuing those positions?

19 A As I recall, those were valued using a Markit close  
20 with a mid-offer spread applied.

21 Q And can you tell the court how you chose -- how you  
22 selected a Markit close?

23 A I just don't recall that process.

24 Q And do you recall how you selected a spread for those  
25 positions?

1 A To by best recollection, there was a default spread  
2 that was applied.

3 Q Do you know what that was?

4 A I believe it was 10 percent.

5 Q If you can turn back to Lehman Positions Master Tab.  
6 Is the process that you use to value the index positions  
7 recorded or memorialized in any way in Exhibit 2108?

8 A Yes, I believe it is.

9 Q And can you use the first index position, which I  
10 believe is in Cell B164, to show the Court how that is  
11 reflected?

12 A Yes. Looking at Cell B164, we see an identifier  
13 corresponding to a Series 2 CDXEM position. Cell AL164 is  
14 currently selected. That displays a mark. The marked  
15 source is identified as market.

16 Q And is there an indication of what date the market  
17 price was (indiscernible)?

18 A There's a date in Column Y, September 19th, 2008.

19 Q And does that reflect your recollection at all as to  
20 whether you used Markit data from September 19th?

21 A The only bell that rings for me about September 19th,  
22 2008, is that I think it was the tightest day of that week  
23 in general, so the one in which the claim would have  
24 actually been least favorable to QVT.

25 Q Did you use the same methodology for valuing all of the

1 CDX indexing positions?

2 A As I recall.

3 Q In describing that first position, I think you said it  
4 was CDX 2, is that right?

5 A Yes.

6 Q What significance, if any, does that Number 2 have?

7 A Series of CDS indices are issued periodically. So a  
8 low number, such as CDX 2, denotes an index which was issued  
9 quite early in the life of these products, meaning that it's  
10 maturity date is likely to be fairly close to -- in this  
11 case, quite close to the present. In other words, lower  
12 numbers here mean shorter maturities.

13 Q Did anyone at QVT tell you to inflate the amount of  
14 QVT's claim?

15 A Not that I recall.

16 Q Did anyone at QVT tell you to determine the maximum  
17 possible claim?

18 A Not that I recall.

19 MR. REGAN: That's all I have.

20 THE COURT: All right. Mr. Tambe.

21 MR. TAMBE: Let's take five minutes, for  
22 (indiscernible)

23 THE COURT: Sure, okay.

24 MR. TAMBE: I'll keep the break short.

25 THE COURT: Yeah, we'll come back, and then we're

1 going to take a lunch break at 1:00 to 2:00 today, all  
2 right?

3 MR. TAMBE: Thank you, Your Honor.

4 THE COURT: Okay.

5 (Recess)

6 THE COURT: So I have good news and bad news. The  
7 elevators aren't working. You can decide whether that's the  
8 good news or the bad news.

9 (Laughter)

10 THE COURT: You may be walking downstairs for  
11 lunch, or you may not be walking anywhere. So we'll keep  
12 you posted.

13 MR. TAMBE: Your Honor, we have witness books.

14 THE COURT: Sure. You're going to be in that one  
15 exclusively, or should I hold on to --

16 MR. TAMBE: I think we'll actually be largely in  
17 the white one.

18 THE COURT: Largely in the white one, okay, thank  
19 you.

20 CROSS-EXAMINATION OF THOMAS KNOX

21 BY MR. TAMBE:

22 Q Good afternoon, Mr. Knox.

23 A Good afternoon.

24 Q My name is Jay Tambe, I'm one of the lawyers for the  
25 Debtors. Let's start with 9/15/2008. Were you in the

1 office that day?

2 A Monday, September 15th, 2008, yes.

3 Q Okay. So you were working from the officer when you  
4 were sending out the market quotation requests, et cetera.

5 A That's my recollection.

6 Q Now, you were shown, I think, a couple of  
7 communications from 9/16 in the white book. Can you turn to  
8 the last tab, that's 2147?

9 A Mm hmm.

10 Q Now, (indiscernible) discussed this document with  
11 counsel for QVT, correct?

12 A I believe I saw it.

13 Q Okay. And that's an email from Mr. Wollman to you  
14 around 3:00 PM on September 15th, 2008, do you see that?

15 A I do.

16 Q And then there's an Excel spreadsheet attached to that,  
17 correct?

18 A There appears to be.

19 Q So let's pull up the native spreadsheet, so we can see  
20 what's on that spreadsheet. And you'll see I has a series  
21 of emerging markets positions down the left-hand side, do  
22 you see that?

23 A I do.

24 Q You got this from Mr. Wollman on September 15, 2008,  
25 correct?



1 A I believe that's accurate.

2 Q And shortly after you got this from Mr. Wollman on  
3 September 15, 2008, you sent out your emails to the market -  
4 - the reference market-makers, asking for market quotations,  
5 correct?

6 A I believe that's accurate.

7 Q So let's keep this document on the screen, and I'll ask  
8 you to go to the hard copy document that's in your binder.  
9 That's JX-51, if it's in there. Sorry, JX-104.

10 A Just one moment.

11 Q Sure. Let me know when you're there.

12 A Yes, I'm there.

13 Q And JX-104, you told counsel for QVT, is the email that  
14 you send out, it's an email to yourself, but the BCCs are  
15 folks at the different (indiscernible), correct?

16 A That's accurate.

17 Q And what you sent out was an Excel spreadsheet, and you  
18 looked at the very last page of the hard copy document,  
19 behind Tab 104. And that's a list -- that's a list of the  
20 transactions you identified when you went out to the market  
21 for market quotations, yes?

22 A That's my recollection.

23 Q Okay. Look at what's on the screen, right? That looks  
24 very different than what you sent out, correct?

25 A There appear to be more positions on the screen.

1 Q And let's just scroll down until you see the bottom of  
2 that spreadsheet. For example, there are several lines of  
3 Venezuela in the sheet that Mr. Wollman sent you, but there  
4 are only two lines of Venezuela in the sheet you sent to  
5 market-makers, correct?

6 A Yes.

7 MR. TAMBE: We have a demonstrative, Your Honor.

8 THE COURT: Okay.

9 MR. TAMBE: It's 5955, and I'll hand out the hard  
10 copies.

11 THE COURT: Thanks. Mr. Tambe, could I have one  
12 for Ms. Eisen, please?

13 MR. TAMBE: (indiscernible) hard copy  
14 (indiscernible) witness, (indiscernible) on the screen what  
15 would be (indiscernible). (indiscernible) demonstrative,  
16 Judge, you can keep that demonstrative (indiscernible). All  
17 right, so what you should have in your hand is 5956. And if  
18 you compare what we have in 5956 to the spreadsheet that you  
19 sent out to the market-makers at about 3:20 PM on September  
20 15th, 2008 --

21 A Yes.

22 Q That should be a match. Could you confirm that it's a  
23 match?

24 A I'm sorry, it would take me quite a while to confirm  
25 that it's a match with every identical spread. Should I

1 assume that the spreads are equal?

2 Q I believe this is a copy from the sheet that you sent  
3 out, JX-104.

4 A Okay.

5 Q And now you'll see, if you compare it to what's on the  
6 screen, the screen has on it 2147, that's what Mr. Wollman  
7 sent you. Do you see that?

8 A Yes.

9 Q And you'll see, if you just read down the left-hand  
10 side, the lines. It should show up on your screen, goes all  
11 the way down to Line 42, do you see that?

12 A I do.

13 Q And the document that you sent out, you've got 21  
14 lines, you see that?

15 A I see that on 5956, yes.

16 Q And if you look at Venezuela, on the bottom of what you  
17 sent out, 5956, JX-104, you've asked for quotations on two  
18 Venezuela positions, each 10 million notional, do you see  
19 that?

20 A Yes.

21 Q And if you look at what Mr. Wollman sent you, there are  
22 multiple lines with Venezuela with 10 million notion, do you  
23 see that?

24 A Yes.

25 Q And you made the decision, after you go Mr. Wollman's

1 email, as to what you were going to send out reference  
2 market-makers, correct?

3 A That's my recollection.

4 Q And so you changed Mr. Wollman's spreadsheet and sent  
5 another spreadsheet out, correct?

6 A Yes.

7 Q Also included in Mr. Wollman's sheet to you are two  
8 positions of BDBSA, do you see that?

9 A I do.

10 Q Okay. And those were not included in your market  
11 quotations, correct?

12 A That's correct.

13 Q And that's because you did not have position to Lehman,  
14 LBSF, with respect to BDBSA, is that the reason?

15 A I don't recall.

16 Q You have no recollection as to why you changed Mr.  
17 Wollman's spreadsheet and sent out a different spreadsheet  
18 to the reference market-makers?

19 A May I make reference to the other exhibit that you  
20 handed out?

21 Q Sure. Are you referring to 5955?

22 A I'm referring to 5955. The only feature of this that  
23 gives me a hint as to what the process may have been is the  
24 account identifier in Exhibit 5955. I see Rows 976 through  
25 984. This appears to have been filtered, because the rows

1 don't seem to be consecutive. Those are all labeled with  
2 Account Macro Hedge EM. As I recall, that was not an  
3 account that I had day-to-day trading authority over.

4 Q My question was a little different, right? Mr. Wollman  
5 sent you a spreadsheet on Monday around 3:00 with a list of  
6 EM positions, correct?

7 A Yes.

8 Q What went out to reference market-makers from you was  
9 not that list, but a different list, correct?

10 A Correct.

11 Q And you know now, because when you testified on direct,  
12 that no market quotations were sought for certain Venezuela  
13 positions in the portfolio, correct?

14 A I believe that's accurate.

15 Q So you dropped them off Mr. Wollman's list, and no one  
16 else picked them up.

17 A That seems correct.

18 Q And at the time, when you were doing the calculation of  
19 the Lehman claim, did you tell Mr. Wollman, "Hey, we missed  
20 several Venezuela positions."?

21 A I don't remember.

22 Q It didn't catch your attention at all that you had  
23 actually missed sending out market quotation request for a  
24 number of Venezuela positions?

25 A I don't remember.

1 Q Do you recall any discussion with the valuation  
2 weekends? So the weekend of the 20th, 21st, 27th, 28th, of  
3 anyone saying, "Hey, we did not send out market quotation  
4 requests for many positions."

5 A No, I don't.

6 Q You'll see in Mr. Wollman's email to you, and your  
7 email to reference market-makers, there's no reference to  
8 the CDX emerging market index trades, correct?

9 A May I verify, please?

10 Q Sure.

11 A Thank you. I don't believe I have control of this  
12 sheet.

13 Q So where would you like to go?

14 A I just want to make sure that they're not above Row 16.

15 Q Sure, let's go up to the top of the spreadsheet.

16 A Thank you, yes, that's accurate.

17 Q Okay. But CDXEM are a series of positions that you  
18 valued using Markit, correct?

19 A Yes.

20 Q Did you ever ask Mr. Wollman, "Well, who sent out the  
21 market quotation requests for CDXEM?"

22 A I don't remember.

23 Q Now, the reference market-makers you selected, who got  
24 Exhibit 104, that's JX-104, correct?

25 A Yes.

1 Q And I believe you said the people identified -- and  
2 this is on the metadata of the second page of the paper  
3 Exhibit JX-104, in the white book, the metadata shows people  
4 at Deutsche Bank, JP Morgan, Morgan Stanley, UBS, do you see  
5 that?

6 A Yes.

7 Q I believe you identified them as institutional  
8 salespeople on the emerging market desk, is that right?

9 A I'm not sure I identified them as such.

10 Q Were they, in fact, salespeople on the emerging market  
11 desks of those banks?

12 A Yes, I believe so.

13 Q I mean, you weren't sending your emerging market Markit  
14 quotation requests to the interest rate swap desk, correct?

15 A That's correct.

16 Q You were sending it to the right desk within these  
17 large organizations, correct?

18 A I believe that was my effort.

19 Q Okay. And you did not send these folks the CDX  
20 position that you ultimately valued using Markit, correct?

21 A That appears accurate.

22 Q And as far as you know, no one else at QVT send these  
23 emerging market salespeople those positions either, correct?

24 A I don't know.

25 Q And that's another issue that never came up in your

1 discussions, when you were putting a value to the Lehman  
2 claim, correct?

3 A I don't recall.

4 Q So let's keep 5956 in front of you, and that's the  
5 demonstrative based on the spreadsheet you sent in JX-104.  
6 Now, you testified, I believe, that after you sent out your  
7 request for quotations, you got back various types of  
8 responses, correct?

9 A Actually, I believe I testified that I didn't recall  
10 receiving responses, but the exhibits demonstrate that I  
11 did.

12 Q And so if we could go through your white book, and just  
13 look at some of the responses you got back, JX-63, you  
14 identified that as a response from JP Morgan, correct?

15 A Correct.

16 Q And no -- none of the figures that appear in JX-63 made  
17 their way into the EM tab that you were talking about, where  
18 you did your calculations, or the CDS curves tab, where you  
19 constructed the curves for valuing these various positions,  
20 correct?

21 A I believe that's correct.

22 Q So I think the question you were asked was, did you  
23 reject these numbers? You didn't actually use any of these  
24 numbers, correct?

25 A That's correct.



1 Q Let's go to Tab CX-1219. This was the response from  
2 Morgan Stanley, correct?

3 A That's correct.

4 Q And again, you were asked whether you rejected these  
5 numbers. Did you actually use any of these numbers when you  
6 calculated the values of the CDSEM provisions that you  
7 valued?

8 A I don't believe so.

9 Q And you had asked for actionable quotations, and you  
10 had gotten back a response from Morgan Stanley that  
11 purported to be actionable quotes, correct?

12 MR. REGAN: Objection. Mischaracterizes the  
13 document.

14 THE COURT: Why don't you ask it a different way,  
15 Mr. Tambe?

16 Q Anything on the face of this document that says it's  
17 indicative only?

18 A There is nothing on the face of this document that says  
19 it's indicative only.

20 Q And you did say this was in direct response to the  
21 email you sent out, asking for actionable quotations,  
22 correct?

23 A That's accurate.

24 Q And in fact, you didn't transact with Morgan Stanley on  
25 either 9/15 or 9/16, correct?

1 A I would need to look at the list of counterparties for  
2 the 9/16 trades to be certain of that, but not on 9/15.

3 Q I thought you said that with respect to replacements  
4 that given the state of the market, you did the bets you  
5 could on 9/16, you replaced as much as you could, right?

6 A We replaced, as I recall, as good a fit we could with  
7 the trades that had been lost.

8 Q Well, these were -- this response from Morgan Stanley  
9 matches, position by positions, the positions you asked for  
10 market quotations on, correct?

11 A That's correct.

12 Q In fact, if you look at the maturities, these are not  
13 on-the-run maturities, these are the maturities you  
14 specified in your email, correct?

15 A I believe that's accurate.

16 Q And still you didn't enter into any of these  
17 transactions, correct?

18 A My general recollection is that these were not  
19 actionable.

20 Q But you didn't talk to Morgan Stanley to find out  
21 whether they were actionable or not, correct?

22 A I don't remember.

23 Q And you said you only did five-year trades because  
24 that's all that was available in the market, is that what  
25 you said?

1 A I believe that's correct.

2 Q Right. But here's Morgan Stanley, giving you levels,  
3 not just indications, but actual dollars and cents, dollars  
4 at least, for off-the-run positions, correct?

5 A I don't believe you've established that these are  
6 actionable levels.

7 Q But again, you'd agree with me, nothing on the face of  
8 this document that says it's mid-market, indicative-only, or  
9 any of that stuff, right?

10 A Nothing says either way.

11 Q Let's go to 1291. Now, I think you said on direct that  
12 this too was a response to your market quotation request on  
13 Monday, correct?

14 A I believe that's accurate.

15 Q And that's from Deutsche Bank, correct?

16 A Yes.

17 Q And it's 7:15 PM on September 15th, 2008, correct?

18 A Yes.

19 Q And you've got bids and asks for one-year, two-year,  
20 three-year, five-year, and ten-year, correct?

21 A One-year, two-year, three-year, five-year, and ten-  
22 year, yes, that's accurate.

23 Q Again, these are not mid-market numbers?

24 A I'm sorry, am I in --

25 Q You should be in 1291.

1 A All right.

2 Q Okay.

3 A Yes. This shows what I recall to be the typical  
4 Deutsche Bank format for closes with a bid and offer on each  
5 spread.

6 Q Okay. So, not mid-market? Bid and an offer level,  
7 correct?

8 A That's what it's showing.

9 Q I think you testified on direct that you did use this  
10 data, but not as is, correct?

11 A That's accurate.

12 Q In fact, you shifted each of these curves where you  
13 used them to reflect transactions you had done not on 9/15  
14 but on 9/16, correct?

15 A That's correct.

16 Q Let's just go to Exhibit 2108, and that's the  
17 spreadsheet that you were testifying about on direct. And  
18 let's go to CDS curves because I think that's one of the  
19 tabs you were talking about.

20 A Yes.

21 Q If we can keep 1291 open in paper format next to you.

22 A Oh. Just a moment, sir.

23 Q Okay.

24 A 1291, correct?

25 Q 1291. The Deutsche Bank 9/15 closing levels.

1 A Yes.

2 Q Bids and offers. Do you see that?

3 A Okay. Yes.

4 Q I think you told counsel that what appears in the  
5 Argentina section in Columns C and D between Rows 8 and 12  
6 is data that you picked up from 1291. Is that right?

7 A That is correct.

8 Q But you didn't use that data. You created a new curve  
9 that appears below at Lines 22 through 26, correct?

10 A Correct.

11 Q And I think you called that a parallel shift, correct?

12 A That's correct.

13 Q But you were shifting the 9/15 curve with transaction  
14 prices you experienced on 9/16, correct?

15 A That's correct.

16 Q And the markets had moved from Monday to Tuesday,  
17 correct?

18 A I don't believe that I can make that statement.

19 Q You didn't check?

20 A I'm not sure that there was very much trading happening  
21 on 9/15.

22 Q Well, the spreads that Deutsche Bank was quoting on  
23 Monday were different than the spreads Deutsche Bank was  
24 quoting on Tuesday, correct?

25 A Can you please verify?

1 Q Well, did you do that at the time? Did you do that at  
2 the time?

3 A I'm not sure I understood your question.

4 Q Did you, at the time, look to see whether Deutsche  
5 Bank's spreads on 9/16 were different than Deutsche Bank's  
6 spreads on 9/15?

7 A Which spreads on 9/16?

8 Q For Argentina. For the Argentina curve.

9 A From what source and at what time?

10 Q From Deutsche Bank.

11 THE COURT: Mr. Tambe, I think Mr. Knox is  
12 genuinely confused.

13 MR. TAMBE: Okay.

14 THE COURT: Okay?

15 Q I thought you told us that when you were looking at  
16 1291, that that looked to you like a typical Deutsche Bank  
17 set of closing curves, correct?

18 A Yes.

19 Q You got similar curves from Deutsche Bank on 9/16,  
20 correct?

21 A Correct.

22 Q Did you compare the 9/15 curves, which is Exhibit 1291,  
23 to what Deutsche Bank said you the next day?

24 A I don't recall doing so, but likely.

25 Q But what?

1 A Likely.

2 Q And instead of using the Deutsche Bank curves from  
3 9/16, you instead started with their 9/15 curves and shifted  
4 them. Correct?

5 A Correct.

6 Q Why did you shift them?

7 A My general recollection is that neither the 9/15 nor  
8 9/16 curves represented necessarily executable levels. The  
9 replacement trades that we did, did represent executable  
10 levels as they were executed. So, that was the motivation.

11 Q Did anyone tell you to value your transactions as of  
12 9/16/2008?

13 A Not that I recall.

14 Q You did not enter into any replacement transactions  
15 with Deutsche Bank, either on 9/15 or 9/16, correct?

16 A Can you please check that?

17 Q Sure. Where would you go to check?

18 A I don't believe I have control of the sheet. I would  
19 go to the EM tab. I believe you need to scroll down.  
20 Actually, it appears that some of the replacement trades  
21 were done with Deutsche Bank.

22 Q So, why didn't you transact at the Deutsche Bank on  
23 9/15/2008?

24 A My general recollection is that those levels may not  
25 have been executable levels.

1 Q Sir, as you sit here, you made no attempt to replace  
2 those trades on 9/15/2008 at the Deutsche Bank, did you sir?

3 A I don't remember.

4 Q If you look in Column F, you'll see both DB and you'll  
5 see BARC and CITI. Do you see that?

6 A I do.

7 Q You didn't send your market quotation request to  
8 Barclays or Citi, did you sir?

9 A Can you check please?

10 Q Sure.

11 A I'm sorry. Which exhibit is that?

12 Q JF12-4, I believe.

13 A That's accurate.

14 Q I believe you testified on direct that you did not get  
15 the requisite market quotations on any of the positions that  
16 you sought quotations on. Is that correct?

17 A That's my recollection.

18 Q Okay. Did you send out your market quotation list to  
19 Barclays or Citi?

20 A I don't believe so.

21 Q And you didn't make any efforts to actually replace any  
22 of the trades with Barclays or Citi on 9/15/2008, correct?

23 A I don't remember.

24 Q Let's go back to the CDS curves used. So, we discussed  
25 the Argentine curve, that you took the 9/15 curve and you



1 shifted it. Let's go over to Venezuela. And again, with  
2 respect to Venezuela, you started with Deutsche Bank's 9/15  
3 curve, correct?

4 A That's correct.

5 Q And it's their offer curve that you started with?

6 A Yes.

7 Q And the shift that you made was to reflect prices at  
8 which you transacted not on 9/15 but on 9/16. Is that  
9 right?

10 A That's right.

11 Q Okay. And again, at the time, you didn't do a  
12 comparison between Deutsche Bank's 9/16 closing curves and  
13 Deutsche Bank's 9/15 closing curves, correct?

14 A I believe it would have been difficult to do that prior  
15 to the close on 9/16. I believe the closing indications are  
16 what you're referring to on 9/16.

17 Q Right, but this tab, this tab wasn't created on 9/15 or  
18 9/16, right?

19 A I don't remember.

20 Q Well, the tab was created on those weekends, correct?

21 A I believe so.

22 Q Okay.

23 A But I don't know if there was any start to it prior to  
24 that.

25 Q Let's go to 1277. Now, this is a document that you

1 discussed with counsel on direct. This was a response from  
2 UBS very shortly after you sent out your requests, correct?

3 A I believe that's right.

4 Q If you'll go to the native document that's identified  
5 in that document. Go to the EM tab, please? Now, if you  
6 can go down to Row 27. So, UBS did respond with respect to  
7 Argentina. Do you see that?

8 A I see the data in the cells beginning at C27.

9 Q And it gave you the teners you had requested, 1, 3, 5,  
10 7 and 10, correct?

11 A That's correct.

12 Q And they gave you a recovery assumption, correct?

13 A Yes.

14 Q And they told you it was not a flat curve, correct?

15 A yes.

16 Q And you did not transact with UBS on 9/15/2008,  
17 correct?

18 A That's correct.

19 Q Even though they were prompt in responding to your  
20 request, gave you curves, gave you a recovery level, you did  
21 not pick up a phone and call UBS and say, I want to replace  
22 my Argentine risk; I'll do it on restructs?

23 A My general recollection is that this was not an  
24 executable curve.

25 Q But you didn't speak to UBS to find out whether or not

1 it was executable, correct?

2 A I don't remember.

3 Q Well, if you were anxious to replace your Argentine  
4 risk, you would've picked up the phone and called, correct?

5 A Possibly.

6 Q But you have no recollection of having done so,  
7 correct?

8 A I have no recollection either way.

9 Q You had discussed a little bit about how you actually  
10 valued the Argentine positions, and so, I just want to go  
11 back to 2108, and let's go to EM. I believe you have  
12 discussed on this tab of 2108 generally how the costs of  
13 unwind were allocated to the different trades. Is that  
14 right?

15 A Yes, I believe we covered it in general.

16 Q So, again, in the hopes that this might make things  
17 easier, let me give you a demonstrative that's based on that  
18 sheet at 2108.

19 MR. TAMBE: Your Honor, this is Exhibit 5957.

20 THE COURT: Okay.

21 MR. TAMBE: And Randall, if you could just reduce  
22 the screen size so we can see on the screen, roughly, what's  
23 in the demonstrative? Good. I think through K should be  
24 fine.

25 Q The first question, Mr. Knox, if you can look at the

1 demonstrative I've handed you, 5957, and take a look at the  
2 screen, with the exception of Line 76, which is a totals  
3 which has been added to the demonstrative, and you look at  
4 2108, does the other data match up with what you see on the  
5 screen?

6 A It would take me quite a long time to verify that.

7 Q Does it appear to be the same data?

8 A It appears to be similar.

9 Q Okay. And what you're showing in the top part of this  
10 demonstrative and on Rows 50 through 55 of the spreadsheet,  
11 that's where you're listing out the unwind costs that you  
12 paid to get out of the replacement trade that you had  
13 entered into on 9/16, right?

14 A I believe so.

15 Q Okay. So, Lehman goes bankrupt 9/15, you terminate all  
16 the Lehman trades on 9/15, correct?

17 A I believe that's right.

18 Q You enter into six Argentine trades on 9/16, correct?

19 A Yes, six.

20 Q And it's those six trades that you entered into on 9/16  
21 with folks other than Lehman, correct?

22 A I believe so. If we scroll up, I think we can see --

23 Q If you scroll up --

24 A -- the counterparties.

25 Q -- you can see who he entered those with. So, there

1 are your six Argentine trades, Lines 39 through 44, correct?

2 A That's correct.

3 Q And it looks like it's all DB in one city, correct?

4 A I believe I can see a Barclays in that list as well.

5 Q (indiscernible) Barclays (indiscernible). So, it's DB,  
6 Barclays and Citi, correct?

7 A That's accurate.

8 Q These are new transactions entered into on 9/16,  
9 correct?

10 A That's correct.

11 Q And you used the values of which you entered into those  
12 trades as part of your valuation of the Argentine positions,  
13 right?

14 A Mechanically, the spreads, I believe, were used.

15 Q But that's not all you do with these trades. Down in  
16 Rows 50 to 55, when you unwind these trades and have to pay  
17 a fee to unwind, you then add that fee to the valuation of  
18 all the Argentine positions that you're valuing, correct?

19 A I believe that's what's occurring in the Rows 61 and  
20 below.

21 Q Okay. So, let's go to Rows 61 and below. So, in Rows  
22 61 through 74, those are the Argentine CBS positions that  
23 you actually had on with Lehman, correct?

24 A That's accurate. I believe so. I haven't verified.

25 Q And so, what you're doing in Rows 61 through 74 is

1 allocating to those positions the costs of unwinding the six  
2 new trades you did on September 16?

3 A I believe that's accurate.

4 Q And you did that on a pro rata basis?

5 A I think that's right. We'd have to look at the  
6 formulas to be certain.

7 Q And the total amount you allocated to Lehman, because  
8 you're excluding the DBM trades, is about \$4.1 million,  
9 correct?

10 A Roughly. That number is what I see in Cell H76, yes.

11 Q You described this on direct, but the reason you put on  
12 these new six trades had to do with the fact that you were  
13 told by your repo counterparty about where certain bonds  
14 were, correct?

15 A That's accurate.

16 Q LBSF wasn't your repo counterparty, correct?

17 A Not to my knowledge.

18 Q And LBHI wasn't your repo counterparty, correct?

19 A To the best of my recollection, that's correct.

20 Q So, they told you you had certain bonds and you wished  
21 to hedge those bonds, so you entered into these six  
22 transactions, correct?

23 A I believe that's right.

24 Q And then they told you that you didn't actually have  
25 the bonds and so you unwound those positions, correct?

1 A Forgive me, I'm not sure who ultimately informed us  
2 that the bonds were lost.

3 Q Okay. It wasn't LBSF, right?

4 A Not to my knowledge.

5 Q And not LBHI, correct?

6 A I'm uncertain.

7 MR. TAMBE: Your Honor, I've handed you, in error,  
8 5955.

9 Q Do you remember the demonstrative? Do you have that?

10 A Yes.

11 MR. TAMBE: And Your Honor, do you have that?

12 THE COURT: Which one?

13 MR. TAMBE: It's 5955.

14 THE COURT: Yes, I have it. Thank you.

15 Q And you'll see it says at the top it's a demonstrative  
16 based on JX-51. So, let's talk a little bit about the  
17 weekend before Lehman's filing, right. You said you were  
18 called into the office on the Sunday, is that right?

19 A That's what I recall.

20 Q And do you recall at that time doing some analysis or  
21 assessment of what your risk positions were facing LBSI?

22 A I don't recall much of what happened that Sunday.

23 Q Do you recall being provided with a spreadsheet by Mr.  
24 Wollman that listed various Lehman positions?

25 A On that Sunday?

1 Q On that Sunday.

2 A I don't recall.

3 Q Do you recall any discussions with the managing members  
4 or others at QVT about prioritizing replacement positions?

5 A I don't recall that.

6 Q Okay. Let's see if we can refresh your recollection.  
7 Take a look -- it's not a native document. It's not in your  
8 white book, but it's JX-51. And we'll just sort it out.

9 MR. TAMBE: We'll go to the Exposures Tab. And  
10 let's just go to the Exposures Tab for VENZ. It'd be  
11 further down on the (indiscernible).

12 RANDALL: 267?

13 MR. TAMBE: Yes. Keep going down. There you go.

14 Q First of all, we're just going to scroll across this  
15 document to see if it refreshes your recollection. And  
16 you'll see in the first column, Column A has that macro  
17 hedge EM that you pointed out to us before. Do you see  
18 that?

19 A I do.

20 Q And you see a series of Venezuela positions. Do you  
21 see that?

22 A I do.

23 Q And you see the counterparties identified as LBSF in  
24 each of these lines?

25 A Yes.



1 Q Okay. Now let's scroll across. You'll see in Column  
2 J it says Tom. Do you see that?

3 A I do.

4 Q In terms of portfolio managers, were you the only Tom  
5 at QVC at the time?

6 A If I recall correctly.

7 Q Okay. And you'll see in Column K it says naked/hedge.  
8 Do you see that?

9 A I believe so.

10 Q Okay.

11 A Yes.

12 Q And then you'll see in Column L, it says REPL  
13 difficulty. Do you see that?

14 A I do, yeah. Thank you for widening the columns. I'm  
15 sorry. Some of the characters are being blocked.

16 Q Sure. Anytime you want it widened, just let us know  
17 and we'll widen it.

18 A Thank you.

19 Q And you'll see a series of grades there, or letters,  
20 and it's A for the ones that are filled in. Do you see  
21 that?

22 A I do.

23 Q And then you'll see in Column N, there's a choice of  
24 "replace/unwind", and on several of the positions it says  
25 "replace". Do you see that?

1 A I do.

2 Q Let's scroll over a little bit more to the right. And  
3 you'll see there's a column that's titled "urgency for  
4 replacement". Do you see that?

5 A I do.

6 Q And you'll see there's nothing filled in for these VENZ  
7 positions. Do you see that?

8 A I do.

9 Q Okay. Does this refresh your recollection that the  
10 weekend of September 14th, you went through the trades, the  
11 emerging markets trades, and made some assessment of  
12 hedging, replacement, urgency for replacement?

13 A I don't remember this, but it would be very helpful if  
14 we could scroll to the left.

15 Q Oh, sure, yeah.

16 A Okay, thank you.

17 Q Yep.

18 A I wish to identify the accounts that corresponded to  
19 those you were referencing.

20 Q And does that refresh your recollection that this was a  
21 -- this may have been an exercise that you were involved in  
22 that weekend?

23 A I don't remember going through this.

24 Q By the way, when you got the email from Mr. Wollman on  
25 September 15th with the EM Excel sheet that we saw --

1 A Yes.

2 Q -- did you cross-check against the positions on your  
3 books to make sure that Mr. Wollman had picked up every one  
4 of your positions?

5 A I don't remember.

6 Q Okay. I mean, before the whole Lehman market quotation  
7 exercise, do you -- you were responsible for trading a  
8 certain collection of EM positions, correct?

9 A That's accurate.

10 Q And you didn't check your trading books to see if you'd  
11 -- if Mr. Wollman had identified all the positions in your  
12 book?

13 A I don't remember whether or not I checked.

14 Q Be a good time to break now.

15 A Yeah.

16 THE COURT: All right. So, we will resume at  
17 2:00.

18 (Recess)

19 THE COURT: I apologize for the ongoing elevator situation.

20 MR. TAMBE: Good afternoon Mr. Knox.

21 MR. KNOX: Good afternoon.

22 CROSS-EXAMINATION OF THOMAS KNOX

23 BY MR. TAMBE:

24 Q Before the lunch break, one of the documents we'd been  
25 discussing was in your white binder, and it was, I believe

1 2147. That's the email from Mr. Wollman to you.

2 A Yes.

3 Q You had told, told me before lunch that you were in the  
4 office on September 15th, correct?

5 A I believe I was.

6 Q The metadata, I'll show you the metadata. I'm going to  
7 hand up to you the metadata on this email. And have some  
8 questions. This is marked 2147M as in Mary. I just want to  
9 draw your attention to the second page. It's the reverse  
10 of 2147M as in Mary.

11 A Yes.

12 Q You'll see the top there, email from Mr. Wollman to  
13 you, but it has a Gmail account. Do you see that?

14 A I do.

15 Q Do you have any explanation or understanding as to why  
16 Mr. Wollman was sending you the Emerging Markets Excel  
17 spreadsheet to your Gmail address and not your QVT address?

18 A No.

19 Q And, you know, we had discussed the email that you sent  
20 out, that ... to Market Makers, remember that? 104, GX104?

21 A I'm sorry, I'd prefer to have it in front of me.

22 Q It's ... you could go to GX ...

23 A Yes.

24 Q That appears to have come from your work account QVT,  
25 about 20 minutes after you received Mr. Wollman's email.

1 A I'm sorry, I actually can't identify the sent ... I see  
2 a 'sent to' address, but I don't see a firm address in the  
3 metadata. Am I missing it?

4 Q You see the author email? It was an entry that says  
5 "Author email," and it says "Tom Knox," and it looks like  
6 QVT Administrative Group?

7 A Yes.

8 Q Okay. So, that is from your QVT address, correct?

9 A I assume so.

10 Q Were you regularly using your Gmail address in the  
11 course of your work that week?

12 A I don't recall.

13 Q And in connection with this litigation, have you gone  
14 back and searched your Gmail records for other  
15 correspondents that you might have related to this matter?

16 A I believe I searched them some time ago.

17 Q And you didn't find anything or ...?

18 A I don't believe there's anything in there.

19 Q Well, did you find the email from Mr. Wollman to your  
20 Gmail address?

21 A I don't recall.

22 Q The other document we'd been talking about before lunch  
23 break was a native document, JX51.

24 A On this ...?

25 Q That was the demonstrative that you have based on JX51,

1 but we looked at the actual native document and, in  
2 particular, we'd been looking at the exposures tab and we'd  
3 sorted for VENZ. Do you remember that?

4 A Yes, I believe I do.

5 Q I'm going to hand you a document, Exhibit 5958, a new  
6 exhibit.

7 A Thank you.

8 Q Take a moment to just review that email. Let me know  
9 when you're and I'll ask you some questions about it.

10 A Thank you. Yes, I've reviewed it.

11 Q You see this is an email chain. It starts with Mr.  
12 Gold on, looks like, the evening of Sunday, September 14th.  
13 You see that?

14 A I do.

15 Q And I think you are one of the folks who gets this  
16 email. Do you see your name there?

17 A Yes, I see it as well.

18 Q And the subject is QVT LEH CVS. Do you see that?

19 A I do.

20 Q And then you respond to Mr. Gold at the top, do you see  
21 that?

22 A Yes.

23 Q And you state in your response to Mr. Gold, on  
24 September 14th, "I'm replying only to you to avoid causing  
25 any confusion in the sheet markups. Please see my

1 indications of hedge/naked, ability to replace, et cetera,  
2 attached." Do you see that?

3 A I do.

4 Q And those are some of the categories we were discussing  
5 with JX51, correct?

6 A I believe so. One moment. Actually, I think they're  
7 slightly different. The naked hedge seems to tie to the  
8 hedge naked. Ability to replace, replace R-E-P-L difficult,  
9 is that the ...?

10 Q That doesn't exactly match up with JX51?

11 A I don't believe so.

12 Q But looking at Exhibit 5958, does that refresh your  
13 recollection that, in fact, the evening of September 14 you  
14 went through a process marking up a sheet of things like  
15 hedge/naked, ability to replace, et cetera.

16 A No. I actually find this quite confusing.

17 Q Are you saying you didn't send that email to Mr. Gold?

18 A No, I did not say that. I'm saying that I find this  
19 quite confusing. The title says, "QVT LEH CDS after EM  
20 novation." But I don't recall there being a EM novation.

21 Q The line goes on to say, "With Tomaccountdata.xls. Do  
22 you see that?

23 A Yes, I do see that.

24 Q On September 14th, 2008, you were the only Tom  
25 portfolio manager at QVT, correct?

1 A I believe that's correct.

2 Q In fact, you received the original email from Mr. Gold,  
3 right?

4 A Yes, that's correct.

5 Q So, let's see if we can pull up the native file and  
6 that you reference in your email to Mr. Gold. Let's just  
7 scroll down the document so we can see what's on it.

8 A Excuse me, but is this actually the document that was  
9 attached?

10 Q This is the attachment. So, let's sort it for Tom.  
11 Now, we've sorted for Tom and you'll see, what shows on  
12 screen as a series of Argentina trades. We're going to keep  
13 scrolling down. We have now Ecuador trades and Venezuela  
14 trades. Correct?

15 A Yes.

16 Q And those are the sovereign CDS trades that you  
17 eventually ended up -- well, those are the sovereign CDS  
18 names that you eventually ended up valuing for purposes of  
19 the claim, correct?

20 A Those are the sovereign CDS names. I'm not sure if  
21 these are the exact line items.

22 Q Sure. But this is the list you were working off of on  
23 September 14th, 2008, correct?

24 A Provided that this is the attachment to the email.

25 Q But you're -- you don't have any reason to doubt that



1 that's the attachment to the email, do you, sir?

2 A I have no reason to doubt it.

3 Q Sir, go up to the column headings, and you'll see the  
4 column headings, looking at J, K onward, so let's go to the  
5 right side. You'll see the Who column has your name in it,  
6 correct?

7 A Yes.

8 Q And the K column has a choice of naked or hedge and I  
9 believe you have indicated hedge in every line item that  
10 shows up on this sort. Ah, you've got some naked in there.

11 A I don't think that's true. Yeah.

12 Q And you have letter grades of As or Cs. You see that?

13 A I do.

14 Q Now, if you look at the spreadsheet, does that now  
15 reflect your recollection that, in fact, you went through  
16 this exercise on Sunday, September 14th.

17 A I don't remember what the A, C and F stand for, or  
18 manipulating this sheet.

19 Q Different question. Did you go through an exercise of  
20 evaluating QVT's exposure to LDSF and making notations on  
21 topics like naked/hedge, replace, et cetera?

22 A I don't remember doing so.

23 Q And this doesn't reflect your recollection that you did  
24 so?

25 A I don't remember manipulating this sheet.

1 Q Let's go back to the email, which is the cover email,  
2 5958. You note in your email to Mr. Gold, "Please see my  
3 indication of hedge/slash naked, ability to replace, et  
4 cetera attached." Do you see that?

5 A Yes.

6 Q Do you have any reason to believe that you weren't  
7 being truthful in your email to Mr. Gold that those were  
8 your indications of hedge/slash naked, ability to replace,  
9 et cetera?

10 A I have no reason to believe that.

11 Q Okay. I want to ask you some questions about the  
12 valuation process, and then I'll ask you some questions  
13 about a couple of documents. So, we've talked about the  
14 requests you sent out for market quotations, correct?

15 A Yes.

16 Q You did that during the week of 9/15, correct?

17 A Yes, that's my recollection.

18 Q We've talked about the replacement trades which you  
19 conducted during the week of 9/15, correct?

20 A Yes.

21 Q And we've talked about the unwind of certain  
22 replacement trades which happened the week of 9/15, and I  
23 believe some on 9/22, correct?

24 A I don't remember the dates we did discuss unwinds.

25 Q Do you want to see a document to see that?

1 A If that's all right.

2 Q Sure. Let's go to 2108.

3 A Sorry, the ...?

4 Q We have a native document. We'll put it up on the  
5 screen. And if you look in the EM tab, and then we'll go up  
6 a few lines ...

7 A Yes. So, that's September 19th, 2008 and September  
8 22nd, 2008 as the Argentina CDS unwind dates.

9 Q So, as of the time of those unwinds on September 22nd,  
10 2008, you hadn't started populating any kind of a worksheet  
11 with prices, curves, data, et cetera. Correct?

12 A I don't remember.

13 Q You have no recollection of having done so prior to  
14 9/22, 2008, correct?

15 A I don't recall one way or the other.

16 Q Well, you certainly could not have populated any  
17 spreadsheet with the results of what happened on 9/22/2008,  
18 before 9/22/2008, correct?

19 A That's accurate.

20 Q Okay. Now, you have talked about some of the tabs that  
21 you populated in 2/1/08, this document we're looking at.  
22 Correct?

23 A Yes.

24 Q And I believe you said on direct, you populated EM. Is  
25 that right?

1 A Correct.

2 Q You filled in this information?

3 A Yes, and formulae, in this sheet. Sorry, just drawing  
4 the distinction between entering a formula and actually  
5 filling in a number.

6 Q I understand. In some cases you may have put in a  
7 formula that drew information from elsewhere?

8 A That's correct.

9 Q The other tab that you populated was CDS Curves Used,  
10 correct?

11 A I believe that's right.

12 Q Now, there's a tab on this sheet called 'EM List'. I'm  
13 going to highlight that. Did you populate that tab?

14 A I don't remember working with this tab.

15 Q Do you have any idea who populated that tab?

16 A I don't.

17 Q Going back to the tabs that you did populate, EM and  
18 CDS Curves Used, you don't know as you sit here today when  
19 you populated those tabs, correct?

20 A That's correct.

21 Q But, in terms of process, you didn't create that form  
22 of spreadsheet from scratch. You got something from Mr.  
23 Wollman and then you began adding data to it, is that right?

24 A Forgive me, but in what way the form? The form of this  
25 overall Excel workbook as a single file or the form of the

1 individual tabs?

2 Q Let's take both questions. The form or the entire  
3 workbook. That's something that was handed to you by Mr.  
4 Wollman, correct?

5 A I believe that's accurate.

6 Q And then within this particular tab, EM or CDS Curves  
7 Used, did you provide the formatting of that sheet, or those  
8 sheets?

9 A To the best of my recollection, I did for EM and CDS  
10 Curves Used.

11 Q But you don't know when you first created the EM and  
12 CDS Curves Used tabs that appear in 2108, correct?

13 A That's correct.

14 Q In the black book that I handed to you, turn your  
15 attention to ... this is organized by tabs, so tab 25, which  
16 is Joint Exhibit 86 and that's an email. If you take a  
17 moment to look at that email and read it to yourself, and  
18 then I'll ask you some questions about it.

19 A Sorry, this is tab 25?

20 Q 25 in the black book I handed you. It should look like  
21 what's on the screen. Tell me if it doesn't.

22 A Forgive me, should I read the entire email?

23 Q I think you should, yeah. Just let me know when you're  
24 done.

25 A Yes.

1 Q And you recognize Joint Exhibit 86 as an email chain,  
2 starting with an email from Mr. Wollman to you and others at  
3 QVT.

4 A I'm sorry, Joint Exhibit 86?

5 Q Yeah, it's got a blue teal exhibit sticker on it.

6 A Yes.

7 Q I've got to say that for the record. So, you recognize  
8 that as an email from Mr. Wollman to yourself and others at  
9 QVT, correct?

10 A Yes.

11 Q And that's on Saturday, September 27th. You see that?

12 A I do.

13 Q And he's giving some information about certain files on  
14 the G:/ drive, correct?

15 A Yes, that seems accurate.

16 Q And then you received that email and you respond to it,  
17 correct?

18 A Yes.

19 Q And you basically say, "I'm running a little bit late,  
20 but I will be in before noon." You see that?

21 A I do.

22 Q And your email is actually from Sunday, September 28th,  
23 around 11 AM. Correct?

24 A Yes.

25 Q Focusing on Mr. Wollman's email to you and others,

1 you'll see he refers to an Excel sheet called Marking  
2 Responsibility.xls, do you see that?

3 A Yes, I do.

4 Q He makes reference to having assigned each CDS to  
5 someone. Do you see that?

6 A Yes, I do.

7 Q And then -- so as of this point in time, he had not  
8 given you any sheet to fill out with information, correct?

9 A I don't know.

10 Q If you go further down in that paragraph you'll see,  
11 there's a sentence that begins, "If everyone can..." it's  
12 the fourth line down. "If everyone can please make sure  
13 that you have populated marks in your own copy of the Lehman  
14 Claim Sheet format and only include your positions so I know  
15 which to use, I can go through an aggregate". Do you see  
16 that?

17 A Yes.

18 Q And you, in fact, did that, correct? You went into  
19 your own copy of the Lehman Claim Sheet Form and populated  
20 that with your data, correct?

21 A I can't answer that directly because I'm not quite sure  
22 what this language is referring to.

23 Q So, sitting here with whatever memory you have of what  
24 you did eight years ago, that language doesn't clarify for  
25 you what process you followed in populating data into

1 particular sheets, is that right?

2 A Actually, it's much more clarifying for me to see the  
3 exhibit that we had previously, the sheet which includes EM  
4 and CDS Curves Used, because those I actually recall  
5 interacting with and manipulating.

6 Q Okay. So, let's go to 2108. Let's pull that up on the  
7 screen. You can keep this hard copy document available to  
8 you. I think we covered this a few minutes ago. You've  
9 told us that you did populate EM and CDS Curves Used, but  
10 you can't tell us when you populated those, correct?

11 A I believe that's correct.

12 Q Okay. Let's stay with 2108 and I'll go to another  
13 document. So, in 2108, let's go to the top of the page,  
14 where would you look to find the values actually used to  
15 value the Argentina positions that you valued?

16 A You'll need to scroll to the right.

17 Q Okay.

18 A Continue for some distance. I'm sorry, I don't believe  
19 I have control.

20 Q No, you don't have control so tell us how far you want  
21 us to go.

22 A Continue please. Please stop. Column AU should  
23 represent the amount used to value positions in computing  
24 the claim.

25 Q Right. But you didn't stop there, correct? You added



1 something to what's in column AU, is that right?

2 A I don't believe so.

3 Q Okay. So, that includes both the valuation of the  
4 position as well as the assigned amount for the replaced  
5 trades?

6 A Could we scroll to the left please?

7 Q Sure. To the left?

8 A To the left, please. Stop, please. I see a column AR,  
9 but I don't see population. Could we continue scrolling?

10 Q Sure.

11 A Yes, AQ should include the unwind fee that I believe  
12 you were describing.

13 Q So, AU on this sheet, EM, the EM tab, is the all-in  
14 number for the Argentine trades. Is that right?

15 A I believe that's correct.

16 Q Okay. And does this information also get picked up in  
17 the Lehman Positions Master tab?

18 A I think that it does.

19 Q Okay, so let's go to Lehman Positions Master, and let's  
20 sort for just Argen -- just sort the TiFis for Argen.

21 You'll see we have 28 records. Could you just take a moment  
22 to look at those. So, those are positions that you would  
23 have valued, correct?

24 A Yes. It would be helpful if I could see my initials.  
25 I think they're in AQ.

1 Q Okay, so let's scroll over. Would it be easier for you  
2 to drive the spreadsheet?

3 A Possibly. This is a track pad that I'm not familiar  
4 with.

5 Q That's fine. So, let's give you control. That takes a  
6 little bit more time than just giving you a mouse.

7 A Okay.

8 Q So, we'll have your team pull up 2108.

9 A Yes, AQ shows that the positions listed on the screen  
10 are positions I was responsible for.

11 Q Okay. So, let's transfer control, get you comfortable  
12 with the spreadsheet because I want to ask you some  
13 questions about it.

14 A I believe I may have control.

15 Q So, if you can just describe what you're doing, so the  
16 record is clear in what you're doing.

17 A Of course. When control was transferred, the tab 'CDS  
18 Curves Used,' was selected. I believe that you were asking  
19 about Lehman Positions Master, so, I'm scrolling to that tab  
20 and selecting. I'm now scrolling over to column AQ, and  
21 filtering that column so that only my initials will be  
22 displayed, only the line items with my initials will be  
23 displayed. That's completed. And you had questions about  
24 the Argentine positions.

25 Q So, if we can further sort so only Argentina shows up.

1 A Is it acceptable to you if we just leave this up? I  
2 think this is all of the ... I can sort if you'd prefer to.

3 Q If you could sort, that would be easier. Just a text  
4 filter.

5 A Is that what we should be looking at?

6 Q That's what we should be looking at. If you could do  
7 me a favor and just hide some columns that we're not going  
8 to focus on. So, hide everything from D through AK.

9 A Sorry, you said E through AK?

10 Q D as in dog.

11 A D as in dog through AK.

12 Q Okay, so now I'm going to hand you a demonstrative,  
13 which hopefully matches with what you just did. It's  
14 (indiscernible) 52.

15 THE COURT: Okay.

16 Q So, I handed you a demonstrative that I believe should  
17 match what you have just done by filtering 2108, the way you  
18 described in the record.

19 A That seems correct for the first couple of lines.

20 Q Okay. And if you want to do a sum, if you could just  
21 sum the claim amount in column AN as in Nancy. You can just  
22 highlight it and do it that way. You've got a sum of  
23 5721358. Do you see that?

24 A That's what I see.

25 Q That's what's on the demonstrative in the total line,

1 right?

2 A Yes, that's what I see on the demonstrative.

3 Q We're looking at the same population of trades, both on  
4 the screen and in the demonstrative, correct?

5 A I believe that's accurate.

6 Q Now, in the AL column, you have what you call the mark.  
7 Do you see that?

8 A Yes.

9 Q And if you hover over any of the lines, line 74, AL74,  
10 and click on that, that will give you a formula, correct, as  
11 to where that mark is coming from.

12 A Yes.

13 Q And where does the mark come from?

14 A I believe that this mark comes from BD74, so ... may I  
15 scroll through?

16 Q Sure. You're in control.

17 A Scrolling to BD, which lists the sheet Lehman Positions  
18 Tom.

19 Q So, let me just stop you there for a second. That's  
20 not a sheet you identified as one you had populated,  
21 correct?

22 A The ones that I recall interacting with were EM and CDS  
23 Curves Used.

24 Q Right. So, BD doesn't send you to either of those  
25 positions, it sends you to Lehman Positions Tom, correct?

1 A It may send us indirectly to those positions.

2 Q And is it your understanding of the document you're  
3 looking at, 2108, is the final version of the calculations?

4 A To the best of my knowledge.

5 Q Well, here's a question I have. Looking at the  
6 demonstrative in column AL. You see the marks there?

7 A Yes, I do.

8 Q Do you recall, between September 28th, 2008 and October  
9 15, 2008, changing those marks?

10 A I don't remember.

11 Q Do you recall any event or process you went through  
12 that caused you to revisit a valuation you may have done on  
13 9/28/2008.

14 A I don't remember.

15 Q I'm going to show you a document marked Exhibit 5950.  
16 It's just a native document, so we're going to pull that up.  
17 So, the native file will be on the screen. And if you look  
18 in the black binder --

19 A Yes.

20 Q -- you'll find the metadata of this document, tab 23.  
21 Do you see that? And it has a file name, Lehman Claim-Tom.  
22 xls. Do you see that?

23 A I do see that file name.

24 Q And you'll see the author of this document is Joel  
25 Wollman, do you see that?

1 A I do see that line.

2 Q And then there's two dates of note here, the date  
3 created is 9/16/2008. Do you see that?

4 A Yes, I do.

5 Q And the date modified is 9/28/2008. Do you see that?

6 A I do.

7 Q All right. So, now I think you're --I'm not sure that  
8 you're still in control. It's back to Randall. So we're  
9 going to look at the tabs on this document and see if you  
10 populated any of these tabs. So, Randall, if you can just  
11 scroll across the tab so we can read them -- the tabs. And  
12 let's just review all of them.

13 THE COURT: Mr. Knox, if you are confused, it's  
14 quite all right to tell Mr. Tambe.

15 MR. KNOX: I am confused, Your Honor.

16 Q So, right now, all we're doing is looking at the tabs  
17 and I'm going to ask you a question. Looking at this  
18 spreadsheet and those tabs, do you have any understanding of  
19 what this document is?

20 A I don't remember this document.

21 Q Okay. And you have no recollection of filling out a  
22 document called Lehman Claim-Tom.xls?

23 A I don't remember.

24 Q In that period between 9/15/2008 and 10/15/2008, was  
25 there another person at QVT who was valuing the very same

1 positions that you were responsible for valuing?

2 A Not that I remember.

3 Q And have you identified in the record all the sources  
4 of data that you used to come up with the numbers that  
5 you've come up with in your EM tab and the CDS Curves tab?

6 A Could we please see those tabs again?

7 Q Sure, absolutely. 2108.

8 A So, could we begin with CDS Curves Used, please? I  
9 believe there was a conversation around the sources of the  
10 CDS Curves for Argentina. I don't believe that we  
11 explicitly discussed, if you'll scroll down, the Argentina  
12 offer curve in EUR, euro. But it's very much analogous to  
13 the discussion that was pertaining to dollar previously.  
14 The Venezuela curve we discussed, and the Ecuador curve, I  
15 believe, we discussed.

16 Would it be possible to shrink this sheet to make sure that  
17 there's nothing here that we have not reviewed? Could you  
18 please continue? I recognize that the text will not be  
19 legible, but we'll at least be able to identify whether  
20 there's anything else. I see nothing else.

21 Q So, then you have discussed all of your sources of data  
22 that you used to populate the CDS curves used. Correct?

23 A The one thing that I'm not sure that we looked at  
24 direct data sources for is the weighted average spread at  
25 which replacement occurred in Argentina, and also in

1 Venezuela.

2 Q And that's based on the spreads which you actually did  
3 your replacement trades, correct?

4 A That's correct.

5 Q And that data appears, not on this sheet, but on the EM  
6 sheet?

7 A I believe so.

8 Q Do you want to do that? Do you want to go ahead and  
9 confirm that for yourself? Can we go to EM? Scroll further  
10 down, yeah. There it is.

11 A Here are replacement trades listed, strikes are listed,  
12 notionals are listed, and maturities are listed with  
13 counterparties and reference entities.

14 Q So, the question remains, have you now discussed all of  
15 the sources of data that you used to come up with the values  
16 on EM and CDS Curves used?

17 A You haven't explicitly discussed the mechanics of the  
18 CDSW calculation that's standardized by Bloomberg. Oh,  
19 sorry, explicitly discussed the mechanics of the CDS  
20 calculations used by Bloomberg.

21 Q But you've said you used Bloomberg. You took your  
22 curves and you fed them into Bloomberg.

23 A Yes, I'm sorry. I'm trying to answer your question as  
24 to whether or not we've gone through every data source that  
25 ...



1 Q I thought you had. I thought you'd mentioned Bloomberg  
2 CDSW in your direct.

3 A Yes, I think I did, but we did not, in fact, review all  
4 the data sources used by CDSW.

5 Q Other than the Bloomberg, anything else that you relied  
6 on?

7 A Could we please scroll through this sheet again?

8 Q Sure. Just tell us where to go.

9 A We discussed the allocation procedure. We discussed  
10 the unwind fees and replacement trades. Could we shrink the  
11 sheet again?

12 Q Sure.

13 A It looks as though the only thing we need to review  
14 then is the shaded gray area on the top of the sheet. I  
15 believe we discussed the TiFis that appear in column A, the  
16 entities that appear in column B, the maturities in column  
17 C. I'm not sure if we discussed the strikes, although  
18 existing positions so ... notional amounts, first settlement  
19 dates sector. Could you please continue to the right? I  
20 believe the pound names were calls to proprietary analytics.  
21 Could you ...

22 Q I'm sorry, what did you just say?

23 A I believe the pound names that you see were calls to  
24 QVT's internal analytics.

25 Q So, whatever those were, we can't tell from this

1 spreadsheet.

2 A No, the labeling is suggestive but ... recovery  
3 assumption is given, so I believe that will feed from the  
4 CDS Curves Used tab, but we can review that if you'd like  
5 to.

6 Q My point simply is, are there any other data sources  
7 than the ones that are identified on this sheet that you  
8 used to calculate the EM?

9 A I don't believe so.

10 Q Right. That's the question. Let's go back to CDS  
11 Curves Used, and in particular, Ecuador. Now, you told us  
12 on Argentina and Venezuela you took 9/15 curves and shifted  
13 them. Correct?

14 A That's accurate.

15 Q Using data from 9/16 transactions, correct?

16 A Yes, that's accurate.

17 Q For Ecuador you used a DB curve from 9/16/2008.  
18 Correct?

19 A Yes, I believe that we verified that previously.

20 Q And you did have a curve on Ecuador from Deutsche Bank,  
21 from 9/15/2008, correct?

22 A Yes, that's accurate.

23 Q In fact, it was on the very same document that you  
24 picked the other 9/15 Deutsche Bank curves, correct?

25 A I believe that's true.

1 Q And we you didn't use that 9/15 Deutsche Bank curve to  
2 value Ecuador, correct?

3 A No, I believe this is a 9/16 curve.

4 Q The answer to my question is, yes, you did not use the  
5 9/15 Deutsche Bank curve?

6 A I did not use a 9/15 Deutsche Bank curve.

7 Q You also had, not just a Deutsche Bank curve from 9/15,  
8 you also had a Morgan Stanley curve for 9/15, correct?

9 A I don't believe that's accurate.

10 Q So, let's look at in the black book, tab number five,  
11 which is Claimant's Exhibit 1301.

12 A Closing curves, forgive me. I thought you were  
13 referring to market quotation responses.

14 Q So, this one you don't recognize as a response to the  
15 market quotation. This is just closing curves from Morgan  
16 Stanley, is that right?

17 A Please give me a moment to inspect the document. I see  
18 the title, MS Latin America CDS and CDX Closes, which leads  
19 me to believe this is a closing run.

20 Q So, not a response to market positions?

21 A Not as far as I recall.

22 Q Okay. You get that just from heading or the subject  
23 line?

24 A What I get from the heading and the subject line is  
25 that it was a CDS and CDX closing run.

1 Q Well, let's -- then I'm confused. But let's look at  
2 the Deutsche Bank document which you did rely on, which is  
3 CX 1291. Let's pull them up side by side, please. It will  
4 be in the white book, 1291. Keep that open, please.

5 A Sorry, would you like me to stay with this or ... okay.

6 Q So, the Deutsche Bank one has a subject line, Deutsche  
7 Bank, Lat Am CDS Closes 15 September, 2008, correct?

8 A Yes, it does.

9 Q And the Morgan Stanley one says, MS Latin America CDS  
10 and CDX closes, correct?

11 MR. REGAN: Objection, Your Honor, foundation, I  
12 think Mr. Knox said he relied on 1292, not 1291.

13 Q Not 1291, did you sir?

14 A I'm sorry, what are we referring to?

15 THE COURT: Hold on, hold on, hold on. Trying to  
16 get an answer to the question of why Mr. Knox did not  
17 consider the email communication from Morgan Stanley to be a  
18 response to market quotation, right?

19 MR. TAMBE: he told me it's because the subject  
20 line --

21 THE COURT: Correct.

22 MR. TAMBE: -- indicated it wasn't a response to  
23 market quotation. My question to Mr. Knox is that subject  
24 line looks an awful lot like the subject line in the  
25 Deutsche Bank email that he received.

1 THE COURT: And what's the objection?

2 MR. REGAN: The objection is foundation. Mr. Knox  
3 testified earlier that he used the Deutsche Bank run in  
4 Exhibit 1292, and there's a switch here to Exhibit 1291,  
5 that is confusing.

6 MR. TAMBE: Oh, we didn't go to 1292, by all  
7 means.

8 THE COURT: Subject.

9 MR. TAMBE: The subject line is the same. Let's  
10 do it again.

11 A But I think there's a substantive difference now.  
12 Could you please remove the obscuring screen shots? Thank  
13 you. The 4:00 PM levels, which are noted, on the right hand  
14 side, in Exhibit 1292, I don't believe are noted on the left  
15 hand side. Nor, do I see recoveries on the left hand side.

16 Q So, you know the subject lines are the same. The  
17 reason you distinguished between the Morgan Stanley response  
18 and the Deutsche Bank response is Deutsche Bank says 4:00 PM  
19 levels, and has it has recovery amounts. Is that right?

20 A I believe that's a substantive difference.

21 Q Okay, all right. And so, in any event, you had not  
22 taken into account in any of your calculations, the 9/15  
23 levels you had for Ecuador from Morgan Stanley, correct?

24 A I don't believe I did, but could we have a look at  
25 those levels?

1 Q Sure.

2 A Could we compare them to what's in the spreadsheet?

3 Q We could do all sorts of things, Mr. Knox. But you  
4 didn't compare them at the time, correct?

5 A No, but I'm trying to recall exactly what the numbers  
6 were. It looks like these might be wider.

7 Q So, you did consider them at the time and said, "That's  
8 unfair to Lehman, I won't use them", is that what you did?

9 A I don't recall.

10 Q You didn't look at it --

11 A I'm just making a quantitative point.

12 Q So you did not ... I understand it's a quantitative  
13 point. Let's talk about what your process was at the time.  
14 You got this res ... you got something from Morgan Stanley  
15 that had bids and offers on the sovereign names that you  
16 were interested in, you did not incorporate that into your  
17 analysis, correct?

18 A I don't remember.

19 Q All right. I think you testified on direct that you  
20 have no interest in the claim that's being litigated here.  
21 Is that right?

22 A That's my understanding.

23 Q So, just to be clear, you have no interests of any type  
24 in the QVT funds as of today?

25 A That's my understanding. I did, at one point have

1 deferred compensation, but I believe all of that was paid  
2 out long ago.

3 Q Okay. And you have no direct or indirect interest in  
4 any side pockets associated with the Lehman claim, is that  
5 right?

6 A That's my belief.

7 Q But what's that belief based on?

8 A That I've never been made aware, that I recall, of any  
9 investment in the side pockets.

10 Q That's not a topic you've discussed with anyone at QVT  
11 since you left QVT?

12 A The deferred compensation was paid out over time,  
13 including in times after my departure.

14 Q Sorry, the question was, that's not a topic you've  
15 discussed with anyone at QVT since you left QVT, whether you  
16 have an interest?

17 A Forgive me. My attempt was to address whether or not a  
18 discussion had taken place. And I wanted to make sure to  
19 note that communication took place in the form of payments  
20 of deferred compensation.

21 Q And that was the sum and substance of the  
22 communications?

23 A I believe there may have been some communications about  
24 change of address that concerned where to send such  
25 payments.

1 Q But nothing about a substantive nature about your  
2 interest in the QVT?

3 A Not that I recall.

4 Q Let me just check my notes.

5 MR. TAMBE: No further questions, Your Honor.

6 THE COURT: All right. Thank you. Mr. Regan?

7 MR. REGAN: Just a few minutes, Your Honor.

8 THE COURT: Sure.

9 REDIRECT OF MR. KNOX

10 BY MR. REGAN

11 Q Mr. Knox, Lehman's counsel asked you a series of  
12 questions about the market quotation process that you  
13 conducted on 9/15 and replacement trades that you did on  
14 9/16. Do you recall those questions?

15 A I recall a number of question on that subject.

16 Q I believe that you testified that, with respect to the  
17 Argentina and Venezuela trades, you used the price that you  
18 paid for the 9/16 trades to adjust one of the curves that  
19 you received on 9/15. Is that right?

20 A That's right, although I would note that it was  
21 actually the spread that was used in the adjustment  
22 procedure.

23 Q What was your rationale for adopting that procedure?

24 A A desire to include information on actionable quotes  
25 without ignoring the information in the curve. So, the



1 shape of the curve actually impacts valuation and, rather  
2 than using simply a flat spread, made an attempt to take  
3 that shape into account.

4 Q Why not use just any one of the curves that Lehman's  
5 counsel pointed you to?

6 A My general recollection is that those were indicative  
7 and not executable.

8 Q And why not use just the replacement trades that you  
9 executed on 9/16?

10 A Because all of those trades were five years. So, they  
11 didn't include any information on the slope of the curve,  
12 and many of the positions which were lost in Lehman's  
13 defaults were not five-year positions.

14 MR. REGAN: I think that's all I have, Your Honor.

15 THE COURT: Okay. Mr. Tambe?

16 MR. TAMBE: No, Your Honor. Thank you.

17 THE COURT: Mr. Knox, exhale.

18 MR. KNOX: Thank you, Your Honor.

19 THE COURT: Thank you. You can step down. Thank  
20 you.

21 MR. KNOX: Thank you.

22 THE COURT: You can leave them there, we'll take  
23 care of them. Thank you, sir.

24 MR. TRACEY: Are we ready for our next witness?

25 THE COURT: I am if you are.

1 MR. TAMBE: We should discuss some of the  
2 housekeeping matters before we get to the next witness, Your  
3 Honor.

4 THE COURT: Okay. Do we need to do that in a  
5 smaller group?

6 MR. TAMBE: I think we'd like to, yes.

7 THE COURT: Okay. So, should we use the  
8 conference room instead of making everyone step out?

9 MR. TAMBE: Sure.

10 THE COURT: All right. So, we'll go off the  
11 record for a few minutes, and we'll target being back in,  
12 say, 15 minutes.

13 (OFF THE RECORD)

14 THE COURT: Okay, ready when you are.

15 MR. TRACEY: QVT calls Joel Wollman.

16 THE COURT: Hello, Mr. Wollman. How are you?

17 Would you raise your right hand please? Do you solemnly  
18 swear or affirm that all of the testimony you are about to  
19 give before The Court, shall be the truth, the whole truth,  
20 and nothing but the truth?

21 MR. WOLLMAN: I affirm.

22 THE COURT: Very good. Have a seat. Make  
23 yourself comfortable. Let us know if you'd like a break or  
24 need water.

25 MR. WOLLMAN: Sure. Sorry, I'm still ... a lot of

1 real estate. Okay.

2 THE COURT: Are there binders there left over from  
3 other witnesses?

4 MR. WOLLMAN: I think, I think just ...

5 THE COURT: If somebody could clear this out.

6 MR. WOLLMAN: This is me.

7 THE COURT: Oh, that's you. Okay.

8 MR. TRACEY: Thank you, Your Honor.

9 DIRECT EXAMINATION

10 BY MR. TRACEY

11 Q Mr. Wollman, I'd like to start by talking about the  
12 process of marking positions in CDS at QVT. Did you have  
13 any responsibility when you were at QVT, let's say in the  
14 2008 period, for marking the positions that QVT had with  
15 Lehman on QVT's system?

16 A I would have been responsible for at least a portion of  
17 them.

18 Q And, and, and what was the name of the system on which  
19 you marked your positions at QVT?

20 A So, we had a database, or QVT still maintains a  
21 database called Tyche, T-Y-C-H-E, that's a proprietary  
22 database. We would interact with it in a number of  
23 different ways, but ultimately, it was the system that  
24 stored our books and records and general portfolio  
25 management information.

1 Q And if you could, tell us what information was  
2 contained in that system with respect to a particular CDS  
3 position, such as one with Lehman.

4 A Sure. So, maybe by example I'll use a pay-as-you-go  
5 CDS, so a CDS on an RMBS security. So, in Tyche there would  
6 be a position for the CDS itself. So, and that's the, the  
7 TiFi that we've seen throughout are the names of those  
8 positions, so you would have a position in Tyche, and it  
9 would have information such as the spread on the CDS, the  
10 name, information about the payment dates for that CDS.  
11 Then, ultimately, that CDS would then also reference a  
12 security, another security that was stored in Tyche, the  
13 bond itself that the CDS was protecting. And then that bond  
14 would have information in Tyche such as the name, the QSIP,  
15 the maturity, the coupon.  
16 And then, finally, there would be a third entry in the  
17 system, the transaction that causes that CDS to exist. So,  
18 if let's say, I were doing a trade with another  
19 counterparty, there would be an entry that would have the  
20 date that I do the trade, the CDS that's being traded, who I  
21 did the trade with, what the notional was, what the running  
22 spread was, what the price was. And so those, those would  
23 be three separate entities in Tyche that would all be  
24 necessary to represent that CDS.

25 Q And the three separate ones are the information about

1 the CDS, the information about the underlying bond and the  
2 information about the purchase or sale.

3 A Right, the transaction that, yeah, that creates the  
4 CDS.

5 Q Okay. And, and when ... the day QVT enters into a  
6 transaction, is a value placed on that position?

7 A So, yes. So, once a trade happens and is represented  
8 in the system, there is something called ... well, it's yet  
9 a fourth type of entry called a P&L record, which then  
10 exists for each security where there is a ... that QVT has a  
11 position on, and for each day that it maintains that  
12 position. So, that P&L record captures information about  
13 the mark for that position and various P&L metrics as time  
14 goes on.

15 Q And does, did in 2008, QVT mark each of its positions  
16 with new values every day?

17 A So, before I, I had talked about Tyche and it stored  
18 all of the information, the way that the traders would  
19 interact with Tyche on a daily basis, would be through  
20 spreadsheets. So, these spreadsheets would ultimately  
21 upload marks into Tyche, and that would become the basis of  
22 these P&L records. There would be a mark for each ... in a  
23 P&L record for each position each day, however, that mark  
24 would vary ... the pricing information in it would vary in  
25 its staleness based upon how frequently we had information

1 about the security itself, the pricing information on that  
2 security.

3 Q What, what do you mean by that?

4 A So, for example, something like a, like an equity,  
5 where you could easily see where the equity, where it closed  
6 on the exchange, you'd have that information daily. The  
7 spreadsheet would automatically pull that information in  
8 from various pricing services, and so that would ultimately  
9 get uploaded into the system each day. For a less liquid  
10 security there would be no automatic import of that  
11 information.

12 And so, typically, what would happen is the spreadsheet  
13 would just use the last known price that it had available to  
14 it, which for most securities that were illiquid would be  
15 the previous month end mark.

16 Q And just to focus on the positions that we're talking  
17 about here, would the PCDS positions be marked every day  
18 with a new mark?

19 A No.

20 MR. ANDREOLI: Objection, Your Honor.

21 THE COURT: Yes?

22 MR. ANDREOLI: There hasn't been any testimony  
23 that Mr. Wollman was involved in PCS marking in particular.

24 THE COURT: Okay. So, Mr. Wollman has just given  
25 testimony about which sort of pricing data is automatically

1 pulled. So, could you lay a little foundation, Mr. Tracey,  
2 before he answers this question?

3 MR. TRACEY: Sure.

4 Q Why don't we talk about the automatic pulling of  
5 information. Were you familiar with that and involved in it  
6 in 2008?

7 A Generally, yes.

8 Q Okay. And could you describe, for The Court, what type  
9 of information was automatically pulled, and for what types  
10 of positions?

11 A Sure. So, and we're talking about, in the spreadsheet  
12 context, or daily markings, right?

13 Q Right.

14 A So, in that context, certainly equity information, that  
15 would be the case. And ...

16 Q What do you mean by equity information?

17 A Sorry. Equity securities, where there was information  
18 on an exchange that you can, you could observe and, and  
19 there would, there would ... Bloomberg or Reuters calls to  
20 be able to pull that information in. There were other, more  
21 liquid CDSs where there could be daily information  
22 populated.

23 For example, Bloomberg did have some pricing information on  
24 certain more liquid indices, other CDS positions. And so,  
25 there were some automated calls that could pull that

1 information as well. And then that's really the extent to  
2 what automatically happened. For everything else, it would  
3 require some sort of ... it would require a trader to do  
4 something to get that information into it, whether you could  
5 make a call to market partners, for example, but that would  
6 have been just the previous day's information. You could  
7 have manually put in spread information on a CDS, but again,  
8 that would have been a manual entry that then got  
9 calculated.

10 But in terms of the automated processes, it really was just  
11 whatever you could get from something like a Bloomberg or  
12 Reuters.

13 Q And were you, were you familiar with the process of  
14 marking PCDSs in 2008?

15 A Yes.

16 Q And can you tell me whether there was any automatic  
17 updating of information for PCDS in 2008?

18 A For ... on a daily basis, no, there was not.

19 Q And was there any effort on a daily basis to re-mark  
20 the PCDS positions?

21 A No.

22 Q Were you familiar, in 2008, with the (indiscernible)  
23 position on QVT's books?

24 A Yes.

25 Q And was there any automatic information that was



1 uploaded to your system on (indiscernible)?

2 A No.

3 Q And was there an effort in 2008 to daily remark the  
4 (indiscernible) positions?

5 A No.

6 Q All right. I'd like to turn to the monthly process for  
7 marking your positions. Was there a difference between the  
8 daily and the monthly?

9 A Yes, there was.

10 Q And would you describe what that was?

11 A Sure. So, the daily process that I just explained was  
12 very much interacting with the spreadsheet and then  
13 uploading and downloading from that spreadsheet on a daily  
14 basis.

15 Q Can I just interrupt you for one second?

16 A Sure.

17 Q When you talk about a spreadsheet, could you just state  
18 again what you mean when you refer to that, because there  
19 are a lot of spreadsheets in this case?

20 A Right, so, sure ...

21 Q I just want to make sure we understand what it is.

22 A So, I don't think we've seen any of those spreadsheets  
23 yet. There, the way it would be various traders would  
24 maintain their own spreadsheets, where those spreadsheets  
25 would represent a subset of a positions in the portfolio.

1 Ultimately they would be the positions that those traders  
2 were responsible for trading and managing. And then that  
3 spreadsheet would have information about each security, and  
4 then there would be a facility to download, in one of the  
5 columns for that, for a given position, the information in  
6 Tyche, and then similarly, there would be a process, an end-  
7 of-day process, where you would, you would press a button  
8 and then information that was saved in that spreadsheet to  
9 represent that day's mark would then get pushed up into  
10 Tyche.

11 So, at that point, in 2008, that was the primary way of  
12 marking positions. It was interacting with these  
13 spreadsheets and, and the different traders would maintain  
14 one or more such spreadsheets to mark their positions. Now,  
15 for the month end process that you are talking about, that  
16 was a, that was a different process, because that, the  
17 process of marking the portfolio for a month end would spend  
18 multiple days, the spreadsheet system wouldn't really work  
19 because the next day, you're onto the next day ... sorry ...  
20 and so you, you don't have any way to historically capture  
21 and stage information as you're compute, as you're compiling  
22 the quotes and creating the marks. So, there's a process or  
23 a program called (indiscernible), which was designed  
24 primarily for the month end marking process.

25 Q Okay. And, and how did information get into

1 (indiscernible) at the end of the month?

2 A So, there would be a variety of ways that information  
3 would get there. For the more liquid positions like the  
4 equities like we talked about, there would just be automated  
5 calls to populate the pricing, the exchange pricing  
6 information would just come in. There would be some  
7 information that we would get on a monthly basis from  
8 dealers, just kind of various pricing feeds that would be  
9 sent to various people at QVT, and those people would input  
10 that directly.

11 There would also be market partners information that would  
12 get, that would get pulled in eventually, although it was  
13 with a day lag. And then there was also the ability to send  
14 in either a broker run, so closing month end runs on various  
15 positions, or specific dealer-requested marks on specific  
16 securities that QVT had that were not otherwise available on  
17 a closing month end run.

18 Or, finally, there was the ability to, what was called fair  
19 value a security, which was when there was no direct ...  
20 other external quotes and some mark had to be arrived at  
21 through a proxy method or some other calculation.

22 Q And for any one particular position, could it be the  
23 case that there were multiple pricing sources put into  
24 (indiscernible)?

25 A Yes, there could be.

1 Q And if that happened, how would the value ultimately  
2 get determined?

3 A So, once all the various sources of information were  
4 populated in (indiscernible) someone would be responsible  
5 for each security deciding which inputs to use, how to  
6 weight them, and then a weighted average price would be  
7 computed.

8 Q Okay. And, so, let's take PCDS as an example. What  
9 pricing sources were used for a marking up PCDS at month  
10 end?

11 A So, primarily, that would have been ... levels, quotes  
12 that we received from Lehman Brothers, month end levels that  
13 they would send us. Additionally, to the extent that there  
14 was anything pulled in automatically from market partners,  
15 that would come in as well. And then, there may have been a  
16 couple of other one-off type inputs, but those were the  
17 primary inputs to the, to the system.

18 Q Okay, and when you say information from Lehman, I think  
19 you referred to broker runs earlier and broker feeds and  
20 one-off requests. Do you know what type of information came  
21 in from Lehman relating to PCDS?

22 A So, typically, someone would go out to our sales person  
23 at Lehman Brothers, Mike Newman, and ask him for a list of  
24 month-end bids and offers on the various positions we had  
25 with them, and then he would send that to his trader and

1 then ultimately, we would get a response back and then those  
2 would typically be used.

3 Q Okay. And for CARB, what pricing sources were used and  
4 how was it valued on a monthly basis?

5 A Sure. So there, the primary method would be the month-  
6 end run that would go out on CARB, so Lehman was making  
7 markets in CARB, and so the last market that they put out  
8 for the month-end close would be the value that we would  
9 use, so long as it were available.

10 Q Okay. And once all that information was in  
11 (indiscernible), and a decision was made about which source  
12 to use and how to weigh it, what would happen then?

13 A So, that would essentially then result in a mark for  
14 the position. That aspect of the (indiscernible) staging  
15 process would be complete. That mark would then be uploaded  
16 to Tyche, so that would form the basis of the month-end mark  
17 for the month that (indiscernible) was being considered.  
18 That would be in Tyche, and then ultimately, there would be  
19 a -- that information would be shared with our fund  
20 administrator and that would ultimately be used as part of,  
21 at least, the process for calculating NAV.

22 Q And how frequently was NAV calculated?

23 A Monthly.

24 Q And who did that?

25 A Citgo, who, at the time would have been our fund

1 administrator.

2 Q And was there any other review of your marks on either  
3 a monthly or an annual basis?

4 A We would be audited on a yearly basis by PWC.

5 Q Okay. I'd like to turn now to September of 2008 and  
6 the termination of the ISDA agreement. Would you tell me  
7 whether you were involved in the process of discussing the  
8 potential termination of the ISDA agreements with Lehman?

9 A So, I don't recall being directly involved, but to the  
10 extent that it was a conversation that was being had on the  
11 trading desk, I would have likely have heard at least parts  
12 of that conversation.

13 Q And do you recall when, if at all, those agreements  
14 were terminated?

15 A Well, I know it was being discussed in the morning of  
16 September 15th, and I know a decision was made, and I  
17 believe I've seen the document timestamped around 1:00 PM  
18 with the official notice of default termination -- the  
19 official termination, then a default notice.

20 Q And do you recall when that decision was made?

21 A I don't recall when -- I know -- I believe it was in  
22 the morning of the 15th, but I don't have any more specific.

23 Q Were you aware at that time that, upon termination, QVT  
24 was required to perform a market quotation process?

25 A Yes.

1 Q Were you involved in that market quotation process?

2 A Yes, I was.

3 Q And what was your role?

4 A So, I was involved in most aspects of it. The drafting  
5 of -- I was involved in the drafting of some of the  
6 language, the decision or the compilation of the positions  
7 that we needed to get market quotations on, the -- I was  
8 involved in conversations about which market makers to go  
9 out to, and then I was involved in sending out the requests  
10 and communications with at least a portion of those dealers.

11 Q Okay, and do you recall when you started the market  
12 quotation process that day?

13 A Again, I don't recall specifically what time, but it  
14 would have been right after the decision to terminate had  
15 been made.

16 Q And approximately how long, during the day, did you  
17 work on it?

18 A For the remainder of the day.

19 Q Okay, and could you give us just a sense, before we get  
20 into what you were doing, what else you were doing that day?

21 A Well, I had other positions besides Lehman positions  
22 that I was ultimately responsible for managing so I had  
23 my normal day job as portfolio manager for all the positions  
24 as well as this particular process.

25 Q Okay, can you please describe for us how you started

1 preparing to do this market quotation process?

2 A Sure. So, I started with a set of positions that I was  
3 most familiar with, which were the positions that I traded  
4 and managed which were the RGB -- ABS, the RNBS and ABS CDO  
5 positions and compiled a list of those and then started  
6 discussions with my partners about the language that should  
7 accompany that request.

8 Q Okay, so let me show you what's been marked as Joint  
9 Exhibit 53, and you can look at it in your book and we  
10 organized it by type of exhibit. I think the Joint Exhibits  
11 are first.

12 A Sure.

13 Q So, if you could look at Joint Exhibit 53.

14 A Yes.

15 Q So, starting from the bottom, can you tell us what  
16 those communications are?

17 A Sure. So, on Monday, September 15th, 2008, at 11:11  
18 AM, I sent a message to Dan Gold, subject was: "Have you  
19 finalized the format for CDS bid offer requests" and then in  
20 the body I say: "I was thinking of conducting a 1:00 PM BWIC  
21 OWIC (seems that there are a number of these going through  
22 the market) and wanted to make sure I used the proper  
23 format. Thanks, Joel."

24 Q Okay, and did you believe at that time that Mr. Gold  
25 was preparing something for this?



1 A I believe I would have had reason to think that. I  
2 know that he was part of that, as well as with others. I  
3 know that he wanted to be part of that language.

4 Q Okay, and did you receive a response to that.

5 A Yes, I did.

6 Q And what did Mr. Gold say?

7 A So, at 11:15 AM, approximately four minutes later, he  
8 responds: "Not yet. Stand by."

9 Q And why were you asking for this guidance, if you  
10 recall?

11 A Well, I had never done a market quotation before, and  
12 so, I wanted to make sure that I was using the right  
13 terminology and language.

14 Q Okay, and do you recall what happened after that in the  
15 process?

16 A I would have expected to hear back from him, or to send  
17 some more information about my request.

18 Q Okay. Why don't we look at what's been marked as  
19 Claimant's Exhibit 2074? That's in the back of the book.  
20 Can you identify that document?

21 A Yes. So, I guess -- so, the top, the latest message in  
22 there, was from me to Nick Brumm, Dan Gold and Arthur Chu at  
23 11:17 that day. It was a forward of intraday 2:30 PM ABS,  
24 CDS, BWC, OWC, and then I write: "For example, this is an  
25 example of a list that is out there, which I believe is

1 related to the request for tradeable levels."

2 Q And why did you circulate this to Mr. Brumm, Mr. Gold  
3 and Mr. Chu?

4 A It would have just been as an -- well, as I say, it  
5 would have just been an example of a list that was out there  
6 so they could see what other people were doing.

7 Q Okay. Let me take you back to the joint exhibits and  
8 ask you to look at Joint Exhibit 54.

9 A Yes.

10 Q Can you identify that document?

11 A Sorry, just getting there.

12 Q Sorry, it's -- we're going to be going back and forth a  
13 little bit.

14 A Yeah. You're whiplashing me a little bit here. Yes, I  
15 see this.

16 Q And what is that document? For -- I guess it looks  
17 like two things. Can you describe what they are?

18 A Sure. So, there was a -- so, the earliest version --  
19 so, I was forwarding a message that I had written to myself  
20 on Bloomberg at 11:02. The 11:02 message was information  
21 about -- these are the ABS positions, the BWIC, OWIC and  
22 IOWIC that I was referring to, and then I forwarded that  
23 list of securities with the language to Nick, Dan and Arthur  
24 at 11:28. The subject was titled: "BWIC, OWIC, IOWIC Monday  
25 9:15-1:00 PM" and inside, I say: "This is what I had

1 originally drafted and was thinking of circulating. It has  
2 some ABS-specific features like fixed/variable cap  
3 distinctions, and I break it up by type, but otherwise, I  
4 would think that corporates would fit into the same  
5 structure (probably broken out by IG, HY, LCDS index)." I'm  
6 sorry. "by IG/HY/LCDS/index)."

7 Q And what time did you send that to them?

8 A That was at 11:28 AM.

9 Q Okay, and focusing on the Bloomberg that you attached,  
10 can you just make sure we understand? What is a BWIC?

11 A So, BWIC is short for Bids Wanted in Competition.

12 Q Okay, and why do you include those three items under  
13 BWIC?

14 A So, these are positions where QVT was looking to sell  
15 protection, so we were looking for bids of protection from  
16 the market on those three positions. Those are three  
17 positions that we had on with Lehman Brothers.

18 Q Okay, and the next section is OWIC. Can you tell us  
19 what that means?

20 A Yes, so that's Offers Wanted in Competition. That's  
21 the section where we are looking for someone to offer  
22 protection on those securities.

23 Q Okay. And then the last one is IOWIC.

24 A Yes.

25 Q Is that correct?

1 A Correct.

2 Q And what does that mean?

3 A So, this is a set of positions where, you'll notice  
4 they exist in pairs. You'll see the same security two  
5 times, and then it goes to the next security, where they're  
6 in the same size notional, but they will have different  
7 directions and different strikes. So, basically, these are  
8 situations where -- and I believe you see in all cases --  
9 yeah, these are situations where we had bought protection at  
10 a lower strike, and then had subsequently sold protection at  
11 a higher strike, thereby capturing a difference in that  
12 spread. So, for as long as that security is outstanding, by  
13 virtue of these two positions, we will have created an IO of  
14 the difference in strike. In the first example, you'll see  
15 that we had bought protection at 320 basis points, sold it  
16 at 485 basis points, so we had essentially created 165  
17 basis-point IO payment for as long as the security existed.

18 Q Okay. And are these the positions, the ABS positions,  
19 that you referred to earlier that you had pulled together?

20 A Yes.

21 Q So, it's now 11:28. What happens after that?

22 A So, my guess is, I still would have been waiting for a  
23 response regarding language, as I hadn't received anything  
24 back yet from any of my partners.

25 Q Okay.

1 THE COURT: Yes?

2 MR. ANDREOLI: Objection, Your Honor. Move to  
3 strike. The witness testified he was guessing.

4 MR. TRACEY: Well, I'll follow up.

5 THE COURT: Okay.

6 Q Do you have an actual memory of that or are you  
7 guessing?

8 A Well, no, I received the language from my partners. I  
9 don't know exactly if that was the very next thing that  
10 came, but it certainly came at some point.

11 Q Okay. Well, let me direct your attention to Claimant's  
12 Exhibit 2076. Can you identify that document?

13 A Yes. It's an email from Nick Brumm at 12:29 PM to Dan,  
14 Arthur and myself, titled: "BWIC/OWIC --" well, language--  
15 lanan-guage, but language. "Market Quotation Requests.docx"  
16 is the attachment.

17 Q Okay, and what time did you receive that?

18 A That was at 12:29 PM.

19 Q Okay, and turning to the second page of that exhibit,  
20 is that the document that was attached to the email?

21 A Yes.

22 Q Okay. And what did you understand that to be?

23 A So, as the title suggested, this was language to  
24 accompany the BWIC/OWIC, and so, this is two paragraphs  
25 related to that.

1 Q Okay, and did you understand this to be the language  
2 that you had asked for earlier?

3 A Yes. This is in response to -- I believe this was in  
4 response to my original request for language. It was not  
5 from Dan, it was from Nick, but I knew that they were  
6 working together.

7 Q Okay. And do you recall what happened after that?

8 A Yes. I can see here that this references information  
9 about a curve, term structure, and that wouldn't have been  
10 relevant for ABS positions, so I commented that that wasn't  
11 relevant.

12 Q Okay. Let me direct your attention to Claimant's  
13 Exhibit 2075. Can you identify that document?

14 A Yes, so it's an email that I responded back to Nick,  
15 Dan and Arthur at 12:34 PM.

16 Q Okay, and what -- how long after you got the email from  
17 Nick?

18 A So, it looks, below, that the email was 12:29, so,  
19 approximately 5 minutes later.

20 Q And what did you say?

21 A I said: "The first paragraph looks good. The second  
22 paragraph makes sense for corporates but doesn't apply for  
23 the ABS positions since there really is no concept of a  
24 curve bear."

25 Q Okay, and what happened next, if you can recall?

1 A So, I would have waited for further feedback from them,  
2 or I would have started incorporating that language.

3 Q Well, let me see if I can refresh your recollection.  
4 Can you turn to Joint Exhibit 55?

5 A Yes. Yes.

6 Q Can you identify that document?

7 A So, yes, this is an email that I sent to Nick, Dan and  
8 Arthur at 1:06 PM, where I note: "I made two minor changes  
9 to language. One, inserted an 'in' in the Offers Wanted in  
10 Comp, and two, removed the language about currencies, since  
11 there are all US dollar. I will send out as is (formatting  
12 looks better in Bloomberg) unless there are other concerns?"

13 Q Okay, and what's the subject line of that?

14 A So, that is a -- well, that's a forward -- the subject  
15 is: "Fwd BWIC/OWIC/IOWIC Monday 9/15 3:00 PM," which as you  
16 can see, is the forward of the message that I send from my  
17 Bloomberg to my email with that subject that has the same  
18 set of positions that I originally included, but had that  
19 additional language at top -- at the top.

20 Q Okay, and what's the significance of the 3:00 PM in the  
21 subject line?

22 A At that time I sent it, I was contemplating doing a  
23 BWIC/OWIC/IOWIC at 3:00 PM.

24 Q Okay, and what time was that?

25 A Sorry, what time did I send the -- which -- I sent the

1 email to Nick, Dan and Arthur at 1:06, but it was off of a  
2 1:04 draft.

3 Q Okay. And do you recall what happened next?

4 A Well, I would have been waiting for feedback as to  
5 whether there were other concerns.

6 Q Okay. And let me direct your attention to Joint  
7 Exhibit 56 now. Can you identify that document?

8 A Yes. This is an email I received from Nick -- well,  
9 that Nick had sent to me, Arthur and Dan. Subject was:  
10 "Revised language" and it references a Word document.

11 Q Okay, and what time did you receive that?

12 A That was at 1:41 PM.

13 Q Okay, and is the revised language that was attached,  
14 the language that's on Page QVT Fund 044 15818?

15 A Yes.

16 Q Okay, and what did you understand this to be?

17 A So, this was further -- a further revised language,  
18 certainly it was longer than the language the preceded it,  
19 and reflected more information related to the ISDA itself.

20 Q Okay, and let me ask you to look at the third -- well,  
21 first of all, let's look at the title of it. The title is:  
22 "BWIC/OWIC" and under that is "Request for Market  
23 Quotations." Did you have an understanding of why it was  
24 labeled like that?

25 A Well, the BWIC/OWIC was what we were asking -- we were



1 asking for bids and offers in competition, so that's kind of  
2 how the market would understand what we were asking for,  
3 then the request for market quotations and everything that  
4 follows below it is language that relates to our  
5 instructions for the market quotations that we're seeking.

6 Q Okay, and if you could take a look at the third  
7 paragraph and read that? You can just read it to yourself.  
8 My question is, was that the first time that you had seen  
9 that language?

10 A Yes, I believe so.

11 Q And was this the final form of the market quotation  
12 request?

13 A I don't believe it was. I mean, it looks similar to  
14 the final but it doesn't reference lehman@qvt.com, for  
15 example, and it still has the curve information, so that  
16 wouldn't have been the case, at least for the ABS positions.

17 Q Okay, and what did you do after you received this  
18 language at 1:41 PM?

19 A So, I likely would have either commented on this again  
20 or started preparing all the lists that were to follow this.

21 THE COURT: Objection?

22 MR. ANDREOLI: Objection, Your Honor. Speculating  
23 again. This is the third or fourth time.

24 THE COURT: Yeah. If you know, please tell us.

25 If you don't know, it's fine to say you don't know, but not

1 what you likely did, all right?

2 MR. WOLLMAN: Sure. I'm sorry, those are all  
3 things that I know that I did. I guess I don't know if that  
4 was exactly the next thing I did. So --

5 MR. TRACEY: Okay, well, just try your best.  
6 We're trying to go in chronological order.

7 A Right, so I don't know exactly what I did next.

8 Q Okay. Well, let me try to refresh your recollection.  
9 Would you turn to Claimant's Exhibit 2077?

10 A Yes.

11 Q Can you identify that document?

12 A Yes. It's an email that I sent to Dan and Arthur at  
13 2:06 PM titled: "Positions for BWIC/OWIC" and then I, in the  
14 subject, it's -- sorry, rather in the body, it says: "In  
15 G/users/misc/lehman BWIC-OWIC.xls"

16 Q Okay, and do you have a recollection of what positions  
17 for BWIC/OWIC means?

18 A Yes, that would have been the list of positions that we  
19 were -- the broader list of positions that we were looking  
20 to include, more than just the ABS positions.

21 Q And what did you mean by the sentence of the text?

22 A Sorry?

23 Q I don't know -- maybe it's not a sentence, but the  
24 language that begins with "in," what does that mean?

25 A Oh, sorry. So, right, so that was just pointing Dan

1 and Arthur to a spreadsheet that was on the G drive, which  
2 was a shared drive that everyone at QVT could access.

3 Q Okay, and how were the positions collected, facing  
4 Lehman?

5 A I don't recall.

6 Q Do you recall what happened next in the process, after  
7 this 2:06 email?

8 A Yes. I would have then taken those positions and  
9 divided them --

10 THE COURT: Hold on a second. Mr. Andreoli?

11 MR. ANDREOLI: Apologies again, Your Honor, but  
12 the witness testified repeatedly he would have done things.  
13 This is not --

14 THE COURT: Yeah, I think it might just be a  
15 manner of speaking, but for the sake of the record --

16 MR. WOLLMAN: Sorry.

17 THE COURT: -- we need to have clarity, so, why  
18 don't you try it again?

19 MR. WOLLMAN: Sure.

20 A So, after these -- the aggregate list of positions was  
21 created, I split them up into various subsets of positions  
22 and I had conversations with my partners about which dealers  
23 to send those subsets of positions to and then would have --  
24 then I created the spreadsheets that housed that, and I sent  
25 those emails to the dealers directly or to Tom Knox in the

1 case of the EM positions.

2 Q Okay. Let me ask you to take a look at Claimant's  
3 Exhibit 2090. That is a native spreadsheet, and perhaps you  
4 can look at the document and also the metadata that is in  
5 your book.

6 A So, right, I see the metadata and I see the document on  
7 the screen.

8 Q Okay, and can you identify that document?

9 A So, the metadata says that the title of it is: "Lehman  
10 BWIC-OWIC Master.xls." It was created at 2:03 by -- I'm the  
11 author and last modified at 3:02 on 9/15/08.

12 Q Okay, and can you identify what that document is? Do  
13 you want to go to the master sheet?

14 A Yeah, that would be helpful. And do you mind just  
15 scrolling down a little bit? Just going all the way down?  
16 Okay, yes.

17 Q Okay, do you know what it is?

18 A Yes, so, there are five tabs on this sheet. There's  
19 this master tab, which is CDS positions facing Lehman  
20 Brothers and you can see that it has various columns,  
21 Entity, Maturity, Strike, Amount, Sector, as well as the QVT  
22 reference in Column O, and then the other four tabs are the  
23 breakout into the subsets of positions that I had referenced  
24 before, so, ABS, Index, EM and Single Name.

25 Q Okay, and if you can go back to the master sheet, was

1 the intent for this document to include all of the positions  
2 that were facing Lehman?

3 A Yes.

4 Q And have you --

5 MR. ANDREOLI: Objection, Your Honor?

6 THE COURT: Yes?

7 MR. ANDREOLI: Whose intent?

8 THE COURT: Fair enough.

9 MR. TRACEY: That's fair.

10 Q When you sent the ---

11 THE COURT: Hold on. There's more, apparently.

12 MR. ANDREOLI: Apologies. He also testified  
13 earlier that he didn't know how the positions were  
14 collected, so -- he testified earlier that he did not know  
15 how the positions were collected, so there's a lack of  
16 foundation.

17 THE COURT: All right, go ahead, try again.

18 Q So, when you sent the email to your partners, which  
19 directed them to the G drive and a list of positions, was it  
20 your belief at that time that that list included all of the  
21 positions facing Lehman?

22 A Yes.

23 Q And have you looked at -- now I want to take you out of  
24 2008 completely for the next couple of questions. Have you  
25 looked at this document after 2008 to determine whether it

1 in fact included all of the positions?

2 A Yes, I have. Or at least I endeavored to do so.

3 Q Okay.

4 THE COURT: Okay, before you move on, let's go  
5 back in time. What was the basis for your belief at the  
6 time, in 2008, that the positions that were collected in the  
7 G drive included all of the QVT Lehman-facing positions?

8 MR. WOLLMAN: I understood that the market  
9 quotation process required that we collect all the positions  
10 that QVT and Quintessence had facing Lehman Brothers, and  
11 so, I was sending it to Dan and Arthur for them to review it  
12 to make sure that I hadn't missed any positions on it. But  
13 the purpose was to then -- this -- the basis of that email  
14 was to get comfort that we had all the positions so that we  
15 could proceed along the entire market quotation process.

16 THE COURT: But the positions that came to live on  
17 that G drive Excel sheet were put there by you?

18 MR. WOLLMAN: So, that's the -- so, I know that I  
19 ultimately created that spreadsheet. The part that I can't  
20 recall is whether I personally did a query of our Tyche  
21 database to get all of these positions or whether I had  
22 asked one of my analysts to do that, or whether I had asked  
23 someone in our IT Department to do it. I don't recall  
24 creating it in this format specifically but I do know that I  
25 ultimately had this at some point. I'm just not sure how

1 the data from our system ultimately came to exist in this  
2 format.

3 THE COURT: Thank you.

4 Q Okay, so just moving out of 2008 for a moment, have you  
5 reviewed this to determine whether all of the positions are  
6 actually on the master sheet?

7 A Yes.

8 Q And are they?

9 A All positions except for four positions or two types of  
10 positions.

11 Q And what are those?

12 A Interest rate swaps and recovery swaps.

13 Q And how many positions total?

14 A So, that's a total of, including QVT and Quintessence,  
15 that was a total of four positions.

16 Q And do you have any knowledge as to why those four  
17 positions were not on that master sheet?

18 A So, as I said, I didn't -- I don't recall how this was  
19 generated, so I can't say for certain.

20 Q Okay. So, let's turn to the ABS tab. Are you familiar  
21 with that tab?

22 A Yes.

23 Q Okay, and does that, again, I'm still out of 2008.

24 Have you reviewed that tab to determine whether all of the  
25 ABS positions that QVT had facing Lehman are on this sheet?

1 A Yes, I have.

2 Q And are they?

3 A No, they are not.

4 Q Okay, which ones are missing?

5 A The ABX positions are missing, the CARB, which, on the  
6 master sheet, you'll see is marked as Auto BBB Bespoke are  
7 missing, a Pay As You Go RNBS security, MLMI 2005 WMC1-B3 is  
8 missing, and then a fourth is STSUP, which you'll see also  
9 on the master sheet.

10 Q Okay, and were you aware in 2008 that those positions  
11 were missing from this sheet?

12 A No, I was not.

13 Q Is there any difference between the positions that were  
14 omitted from this sheet and the ones that were included?

15 A Yes.

16 Q What is the difference?

17 A The accounts that those positions are in.

18 Q Okay, what accounts are they in?

19 A Well, so the ABX -- well, maybe it's easier to say what  
20 accounts these positions are in, and then I can contrast.  
21 All of these positions are in two accounts. There's one  
22 account called Subprime-MDS-CDS, which is where the RNBS Pay  
23 As You Gos lived and there is another account called ABS-  
24 CDO-Short, which is where the CDO Pay As You Gos would live,  
25 and so those two accounts are where the entirety of these



1 positions resided. The ABX positions were in an account  
2 Subprime-AAA. The CARB or the auto positions were in GMAC-  
3 Hedge. The MLMI was in an account called Subprim, no E,  
4 Subprim-Below-IG, and then the STSUP was in a -- I believe  
5 it was CNBX-Property-Europe, something like that. I'm  
6 actually not entirely sure what the exact name was, but  
7 those are the four accounts that are not included here.

8 Q Okay. So, you referred to two accounts whose positions  
9 are on this sheet, right?

10 A Correct.

11 Q Subprime-AAA and GMAC-Hedge?

12 A No, sorry, the two that are on this sheet are Subprime-  
13 MDS-CDS and ABS-CDO-Short. Sorry. Subprime-MDS-CDS and  
14 then the other account was ABS-CDO-Short.

15 Q And are all of the positions that were in those  
16 accounts on this ABS sheet?

17 A Yes.

18 Q And then you referred to four acts where there were  
19 missing positions.

20 A Yes.

21 Q And are all of the positions in those accounts missing?

22 A Yes. I mean, those happen to be the only positions in  
23 those accounts --

24 Q Okay.

25 A -- so, yes, but that's -- it's still the same answer.

1 Q Okay, and so, other than --

2 THE COURT: Can I ask one question?

3 MR. TRACEY: Sure.

4 THE COURT: So, you've testified that, in essence,  
5 these accounts, which were categorizations in your systems,  
6 were queried in a certain way and that led the data coming  
7 up, as I think about it, and inhabiting your file on the G  
8 drive.

9 MR. WOLLMAN: Well, so, I don't know -- so, in the  
10 case of this ABS tab --

11 THE COURT: Yeah.

12 MR. WOLLMAN: -- that would have been the case  
13 because that was, if you notice, it's the same set of  
14 positions from my BWIC that I drafted that morning.

15 THE COURT: Yeah.

16 MR. WOLLMAN: And so, in creating that BWIC, that  
17 is how I would have done it because that's where I know  
18 those positions live and those are the positions I deal with  
19 most of the time, and those are the positions I think about  
20 as ABS --

21 THE COURT: But the compilation has to come first  
22 before it goes into a BWIC, right?

23 MR. WOLLMAN: Well -- right, so -- exactly, so,  
24 for the purposes of the BWIC, that's how I would have done  
25 it.

1 THE COURT: Yes.

2 MR. WOLLMAN: I would have looked at the account.

3 THE COURT: Okay.

4 MR. WOLLMAN: The master tab is not -- well,  
5 again, I can't say for certain because I don't know exactly,  
6 but the fact that it has all accounts but those two security  
7 types leads me to believe that it was not done by the -- the  
8 master tab itself was not queried by account, it was queried  
9 by security type.

10 THE COURT: Okay.

11 MR. WOLLMAN: And so, that's why the master tab  
12 still has all of the ABS positions, even though this ABS tab  
13 is lacking those four accounts.

14 THE COURT: Okay. What I'm trying to understand,  
15 though, is -- let me just leave it there.

16 MR. TRACEY: Okay.

17 THE COURT: You keep going.

18 MR. TRACEY: Okay.

19 Q So, other than the positions that you've described,  
20 does -- are there any other positions that are not included  
21 in this sheet?

22 A Yes.

23 Q What are those? And when I'm talking about this sheet,  
24 I'm talking about ABS.

25 A Oh, sorry, in ABS, no.

1 Q Okay.

2 A Besides those four accounts.

3 Q Okay. Taking the thing as a whole, all of the sheets,  
4 is there anything else that's missing?

5 A Yes.

6 Q And what is missing?

7 A So, there are three different categories of things. On  
8 the master tab, none of the, what's called fully written  
9 down positions are there. I'll talk about this when I get  
10 through my securities, but they are positions that would  
11 have zero value.

12 Q Well, why don't we pause on that for a second so we can  
13 keep up with you? What is a fully written down position?

14 A So, these are CDSs on RNBSSs or CDOs, so Pay As You Go  
15 is on RNBSSs or CDOs, where essentially, we have received  
16 full payment for the protection we bought because the  
17 underlying security is deemed worthless, that it's fully  
18 written down. It's either actually the bond itself had been  
19 written down or the over-collateralization was such that, in  
20 essence, the bond had written down and so we would have  
21 received payments from Lehman already for the value of the  
22 protection we bought, so there would be no further payment  
23 to claim.

24 Q Okay, so those positions were not on any of these  
25 sheets?

1 A Correct.

2 Q What else?

3 A So, any trade --

4 MR. ANDREOLI: Sorry, objection.

5 THE COURT: Yes? I'm sorry.

6 MR. ANDREOLI: What is "what else?"

7 THE COURT: Well, the predicate question was,  
8 other positions that were not included in the master, and  
9 the first category was CDS on RNBS or CDOs where they've  
10 been fully written down, so the "what else" is--

11 MR. TRACEY: The next category.

12 THE COURT: The next category.

13 MR. WOLLMAN: Thanks.

14 MR. ANDREOLI: Thank you.

15 A Right, so the next category is -- are trades that we  
16 would have executed prior to the 15th that hadn't yet  
17 settled. So, from our system's perspective, they wouldn't  
18 show up as positions when queried because it looks like we  
19 had traded them and they just hadn't yet settled. But  
20 because they ended up not settling, they ultimately ended up  
21 being positions that are in this manner.

22 Q Okay, and what do you call those?

23 A Unsettled trades.

24 Q Okay, and what is the third category?

25 A The third category is a typo. So, if you -- oh,

1 actually, I can derive this. So, if you look at iTraxx 9,  
2 Euro Sub Fin, if you look on -- I'm sorry, I am on Cell  
3 0285. You'll see that it has the QVT Type I reference.  
4 iTraxx 9-EUR-SUB-FIN-130620\_DS10.!, if you scroll all the  
5 way to the left, you'll see that it was transcribed  
6 incorrectly in Column -- well, in Cell A285, and it says:  
7 "iTraxx 2-EUR-SUB-FIN" instead of "iTraxx -EUR-SUB-FIN."  
8 You'll notice that it has the same maturity date, 6/20/2013,  
9 but it's mislabeled in Column A.

10 Q So, in the final market quotations, there was a  
11 position listed for iTraxx 2-EUR-SUB-FIN and not iTraxx 9-  
12 EUR-SUB-FIN?

13 A Yeah. If we go to the Index list, you'll see in Row  
14 52, when that was split out, it was iTraxx 2-EUR-SUB-FIN,  
15 6/20/2013. Whoever would have looked at it might have  
16 realized that something was curious because that's not a  
17 standard maturity associated with the iTraxx 2. You can see  
18 the actual iTraxx 2 above it was March 20, 2015, so the fact  
19 that this was June would have been curious to any of those  
20 traders, but that is, in fact, the way it went out.

21 Q Okay. So, just to be clear, Line 52 should have said  
22 iTraxx 9.

23 A Correct.

24 Q Okay. All right, so, I'd like to now take you back to  
25 September 15th, 2008 and pick up where we left off.

1 A Sure.

2 Q Did you ultimately send out market quotation  
3 solicitations to dealers?

4 A I did, as well as Mr. Knox.

5 Q Okay. Let me ask you to take a look at Claimant's  
6 Exhibit 2086.

7 MR. TRACEY: And for the benefit of the Court,  
8 this is a composite exhibit which includes multiple  
9 individual exhibits and we've collected them in one place  
10 just for convenience.

11 THE COURT: Okay.

12 MR. TRACEY: It includes Joint Exhibit 57, Joint  
13 Exhibit 68, Joint Exhibit 58, Joint Exhibit 59, Joint  
14 Exhibit 104, Joint Exhibit 60 and Joint Exhibit 61.

15 THE COURT: Okay.

16 Q And I'd like to ask you to take a look at that --

17 THE COURT: Hold on. Yes, Mr. Andreoli?

18 MR. ANDREOLI: Apologies, Your Honor. We just  
19 have an objection to the compilation as it looks like  
20 there's -- some of the market quotations are from Mr. Knox -  
21 -

22 THE COURT: I'm sorry? Some of the?

23 MR. ANDREOLI: Some of the market quotation  
24 requests are from Mr. Knox to Mr. Knox are not copying Mr.  
25 Wollman.

1 MR. TRACEY: I think those have already been  
2 identified by Mr. Knox this morning, but we -- can we take  
3 it one at a time and see --

4 THE COURT: Sure.

5 MR. TRACEY: -- if we have a problem?

6 THE COURT: I'm not quite sure what -- what's the  
7 objection?

8 MR. ANDREOLI: I guess we're not sure what the  
9 compilation is supposed to be. If this is a compilation of  
10 the exhibits -- the market quotations that he sent out or --

11 THE COURT: I think that it's being present -- Mr.  
12 Tracey can tell us, but I think it's just for convenience.

13 MR. TRACEY: It's just convenience and I'm going  
14 to ask the witness to identify what it is as a whole.

15 THE COURT: So, the collection of these documents  
16 has no independent significance. It's just a compilation  
17 for the convenience of the witness --

18 MR. TRACEY: Correct.

19 THE COURT: -- giving the questions, giving some  
20 answers.

21 MR. TRACEY: Correct.

22 THE COURT: Does that help?

23 MR. ANDREOLI: Okay.

24 THE COURT: Okay?

25 MR. ANDREOLI: Thank you.



1 Q So, Mr. Wollman, if you could page through that, I know  
2 it's a lot of documents, but could you tell us, as a whole,  
3 whether you can identify those documents? If you can, tell  
4 us what they are. In general terms, I don't want you to go  
5 through each one.

6 A Sure, I'm just skimming quickly.

7 THE COURT: Well, Mr. Tracey, the question that  
8 you just asked is a little contrary to the way I just  
9 characterized the documents.

10 MR. TRACEY: Fine, fine, let me do it differently.  
11 We'll just do it one at a time and well, I'll identify it by  
12 individual exhibit number?

13 THE COURT: I suppose. You understand my point?

14 MR. TRACEY: I understand your point completely.

15 THE COURT: Okay.

16 Q So, what I'd like to do is take you through each  
17 exhibit individually that we've compiled here and what I'd  
18 like to do also is put up a demonstrative which may or may  
19 not be helpful, and that's Claimant's Exhibit 2103. Okay.  
20 All right, so, let's turn first to Claimant's Exhibit 2086,  
21 which is the first document in this compilation. Can you  
22 identify that document?

23 A Yes. It's an email that I sent to Jaime Benjamin at  
24 J.P. Morgan at 2:57 PM. The subject is: "BWIC/OWIC 08/09/15  
25 3:00 PM-nonEM.xls" with an attachment similarly named.

1 Q And is this a market quotation solicitation that you  
2 sent out at that time?

3 A Yes, it is.

4 Q And what is it for?

5 A Well, it's intended to be for the non-EM Corporates and  
6 Index, although I noticed that the EMs are actually in here  
7 as well. But it's -- it was the Corporate and Index market  
8 quotation to J.P. Morgan.

9 Q Okay. Let's turn to the next exhibit, which is -- or  
10 the next exhibit within this compilation, which is Joint  
11 Exhibit 58. Can you identify that document?

12 A Yes. It is a similarly subject and attachment -- named  
13 attachment email to Mike Homeier. It's not referenced here  
14 but he's at Morgan Stanley and this was at 2:58 PM.

15 Q And is that a market quotation solicitation?

16 A Yes, it is, and I'll note that this doesn't have EM in  
17 it this time.

18 Q So, what positions are within this?

19 A So, it's Corporate and Index.

20 Q And who is Mike Homeier?

21 A He was our sales coverage at Morgan Stanley.

22 Q Okay. Let's go to the next exhibit, which is Joint  
23 Exhibit 68. Can you identify that document?

24 A Yes. Same subject, same attachment. At 2:58 PM,  
25 message sent to Colin Abernethy at UBS.

1 Q And who is Colin Abernethy?

2 A He was our sales coverage at UBS.

3 Q Okay, and what -- is this a market quotation?

4 A Yes.

5 Q And what does this one include?

6 A Similarly, Corporate and Index.

7 Q Okay, and if you could turn to the next exhibit in this  
8 compilation, Joint Exhibit 59, can you identify that  
9 document?

10 A Yes.

11 Q What is it?

12 A It's an email that I sent at 3:08 PM to lehman@qvt.com.  
13 I can tell from the metadata that there are a number of BCC  
14 recipients on this as well. I can list them.

15 Q Can you show us where you're reading?

16 A Sure. I'm just looking at the metadata, which is --  
17 actually, I'm not sure what exhibit this is, Wollman 24, it  
18 looks like, 24A.

19 Q So, is it the fourth document?

20 A It's one, two -- right, I mean, it's the fourth page,  
21 yeah. Yeah.

22 Q Okay, and does --

23 A Yup.

24 Q -- and does that indicate who this was sent to?

25 A Yes, it does.

1 Q And who was it sent to?

2 A It was Jesse Knapp at Morgan Stanley, Michael Huba at  
3 J.P. Morgan, Jesse Maffei at RBS, Intesar Haider at Citi,  
4 Jim Hurst at Barclays, Michael George at Deutsche Bank, and  
5 Dave Reedy at Bank of America.

6 Q And how were those individuals selected?

7 A They represented the major counterparties that we had  
8 in ABS.

9 Q Okay, and what positions were included in this market  
10 quotation solicitation?

11 A So, these are, as the subject indicates, "BWIC/OWIC  
12 08/09/15 3:00PM ABS.xls," so these are the ABS positions.

13 Q Okay. Now, let me direct your attention to Joint  
14 Exhibit 0104, and before I ask you to talk about that  
15 document, did you have any role in collecting and storing  
16 the market quotation solicitations that were sent out on  
17 September 15th?

18 A So, you mean the responses or?

19 Q No, the requests.

20 A Did I store the -- sorry, I'm not sure I understand the  
21 question.

22 Q Did you have any role in collecting the responses --  
23 the requests when they were sent out?

24 A In collecting the requests? They were ultimately sent  
25 to lehman@qvt, a large number, and I looked at that mailbox.

1 Q And did you look at it back in September of 2008?

2 A Yes, I would have looked at it in that timeframe.

3 Q During the course of the market quotation process?

4 A As we were getting responses back, yes.

5 Q Okay, and can you identify what Joint Exhibit 0104 is?

6 A Yes. It's a message from Tom Knox to himself as well

7 as BCCing Chandra Metzler at DB, Miryam Bechtle at J.P.

8 Morgan, Michael Marian at Morgan Stanley and Andrew

9 Schlesinger at UBS as well as lehman@qvt.

10 Q And was this a market quotation solicitation?

11 A Yes, it was.

12 Q And what positions did this relate to?

13 A These are the EM positions.

14 Q Okay. Let me direct your attention to Joint Exhibit

15 60. Can you identify that document?

16 A Yes.

17 Q What is it?

18 A This is a document sent from Tom Knox to Ian Alden.

19 Q Okay, and is that a market quotation solicitation?

20 A Yes.

21 Q And for what positions?

22 A The EM positions.

23 Q Okay, thank you. And what I'd like to do is go back to

24 the first of those exhibits, Claimant's Exhibit 2086.

25 A Sorry, 2086?

1 Q Actually, before I do that, can I just direct your  
2 attention to one more Joint Exhibit?

3 THE COURT: 61, by any chance?

4 MR. TRACEY: 61. How'd you guess?

5 Q Can you look at that document, please?

6 A Yup, I'm there.

7 Q And what is that?

8 A That's a message from me to Paul Schauflin at Barclays.

9 Q Okay, and who is Paul Schauflin at Barclays, or who was  
10 he at the time?

11 A Sales coverage at Barclays.

12 Q Okay, and was this a market quotation solicitation?

13 A Yes.

14 Q And any reason this went out at 3:44?

15 A I don't recall purposely doing that, but I'm not sure  
16 why it was 3:44.

17 Q Okay, and to the best of your knowledge, are you aware  
18 of any other market quotation solicitations other than those  
19 that we've identified here?

20 A No.

21 Q So, let me go back to the fourth page of Claimant's  
22 Exhibit 2086.

23 MR. ANDREOLI: Mr. Tracey, can we just ask a  
24 question?

25 MR. TRACEY: Sure.

1 MR. ANDREOLI: Is 2086 the compilation exhibit or  
2 is that the exhibit --

3 MR. TRACEY: It's the compilation.

4 MR. ANDREOLI: So, there's a different --

5 MR. TRACEY: I'm sorry, I'm sorry. It's -- the  
6 compilation exhibit is 2086, so I should have said -- yeah,  
7 this is separately marked as Joint Exhibit 57, if you want  
8 to look at that.

9 Q Are you with me on the fourth page?

10 A Sorry, the fourth page, one, two, three --

11 THE COURT: So, we're on the fourth page of the  
12 compilation.

13 MR. TRACEY: Correct.

14 THE COURT: Okay. Which, at the top, says JX57.

15 MR. WOLLMAN: Okay, yup.

16 THE COURT: Right?

17 MR. TRACEY: Right.

18 THE COURT: BWIC/OWIC et cetera.

19 MR. TRACEY: Yes.

20 THE COURT: Okay.

21 A I'm sorry, okay, so we're -- the instructions tab,  
22 you're talking about?

23 Q Correct.

24 A Okay.

25 Q So, just to visualize it, was this included in -- how

1 did this appear in the market quotation solicitation that  
2 actually was received by a dealer?

3 A Sure, so, it was the first tab in the spreadsheet. All  
4 the solicitations at spreadsheets attached to them, and  
5 inside the spreadsheet, there would have been at least --  
6 and this tab would have been the first tab in that  
7 spreadsheet.

8 Q Okay. So, let me direct your attention to the third  
9 paragraph of the fourth page of 2086 that we're looking at.

10 A Okay.

11 Q And now, could you read that into the record?

12 A Sure, the "please provide" paragraph?

13 Q Yes.

14 A "Please provide market quotations as of 4:00 PM (New  
15 York time) on September 15th, 2008 in writing by return  
16 email to lehman@qvt.com based on the actual notional amounts  
17 and other relevant information set forth in this spreadsheet  
18 in respect of each transaction."

19 Q Okay, and what did you understand the "as of 4:00 PM"  
20 language to mean when you sent this out?

21 A So, I didn't draft this language, but my understanding  
22 was that the levels should reflect 4:00 PM pricing.

23 Q And when you sent these out, did you intend that to be  
24 a 4:00 PM deadline on the receipt of responses?

25 A No.



1 THE COURT: Mr. Andreoli?

2 MR. ANDREOLI: Objection, leading.

3 THE COURT: I don't know that it's leading.

4 Q And do you recall when the responses actually came in  
5 to these market solicitations?

6 A Yeah. There was a wide span in which they came in.

7 Q Do you recall approximately the period?

8 A We would have -- we did receive at least the first  
9 communication back around 3:30 and then it continued up  
10 until approximately 1:00 PM the next day.

11 Q And is that language in the third paragraph included in  
12 all of the market quotation solicitations that you sent out  
13 that day?

14 A Yes.

15 Q Okay. I would like to now turn to another compilation  
16 exhibit, since the last one was so popular, which is 2087.  
17 And again, I'm going to need to take you through these one  
18 at a time and ask you what they are. So, let's start with -  
19 - well, just for the record, I'll -- since the Court is  
20 keeping me honest on this.

21 MR. TRACEY: This is a compilation of the  
22 following exhibits: Joint Exhibit 167, Claimant's Exhibit  
23 1277 and 1278 and 1279, Joint Exhibit 62, Claimant's Exhibit  
24 1281, Claimant's Exhibit 1276, Claimant's Exhibit 1283 and  
25 84, Claimant's Exhibit 1273 and 74, Joint Exhibit 63, Joint

1 Exhibit 64, Claimant's Exhibit 1287, Claimant's Exhibit  
2 1275, Claimant's Exhibit 1278, Joint Exhibit 65, Claimant's  
3 Exhibit 1290 and 1291 and 1292, Claimant's Exhibit 1402,  
4 Claimant's Exhibit 1408, 1404, 1405, 1399 and 1400.

5 Q So, I'm just going to ask you to identify these  
6 documents one at a time if you're able to do that, based on  
7 your knowledge of the documents, starting with Joint Exhibit  
8 167.

9 A Yes, so, this is an email that I received from Ilias  
10 Islamov at Citi at 3:29 PM. Subject was: "Re: from QVT-  
11 BWIC-OWIC 08/09/15 4:00 PM ABS.xls" where Ilias asks me:  
12 "Joel, which way are you going on your IOs, positive or  
13 negative IO?" It's a forward that he had received from  
14 Intesar Haider of an earlier message.

15 Q Okay, and is that a response to the market solicitation  
16 that you sent?

17 A Yeah, it's a follow-up question regarding the market  
18 quotation solicitation.

19 Q I note that, in the email below that, it says: "Due at  
20 4:00 PM," do you see that?

21 A Yes, I see that.

22 Q Did you tell Mr. Haider that the responses were due at  
23 4:00 PM?

24 A No, I did not.

25 Q Let me turn next to Claimant's Exhibit 1277. It starts

1 on the next page.

2 A Yes.

3 Q Can you identify that document?

4 A Yes, that's an email from Andrew Schlesinger at UBS to  
5 lehman@qvt.com. Subject is: "BWIC-OWIC 08/09/15 3:00 PM EM  
6 only (3).xls."

7 Q And was that a response to your market quotation  
8 request?

9 A Yes.

10 THE COURT: Can we take a moment, Mr. Tracey?

11 MR. TRACEY: Sure.

12 THE COURT: Why don't you come up, Mr. Andreoli?  
13 If you want to bring Mr. Tambe, that's fine.

14 MR. TAMBE: I'll observe, Your Honor.

15 THE COURT: Okay, Mr. Wollman, we're going to take  
16 a five-minute break and then we're going to go into the home  
17 stretch. We're going to call it a day at about 6:00, all  
18 right? So, we'll come back in five minutes, everyone.

19 (Break)

20 THE COURT: Mr. Wollman, please come back. Are  
21 you ready over here?

22 MR. ANDREOLI: Yes. Could we just make a comment  
23 about the demonstrative?

24 THE COURT: Sure. Did you want to speak to Mr.  
25 Tracey first?

1 MR. ANDREOLI: I just wanted to ask for if we can  
2 have until tomorrow to just check that all the exhibits  
3 match up to the demonstrative. That's great. Otherwise,  
4 we're fine with proceeding as we discussed.

5 THE COURT: All right, Mr. Tracey's saying yes.

6 MR. TRACEY: Yes.

7 THE COURT: Okay. Ready, yep.

8 Q Mr. Wollman, let me ask you to take a look at  
9 Claimant's Exhibit 1274.

10 A Sure.

11 Q Can you identify that document, please?

12 A Yes, I can.

13 Q What is it?

14 A Well, it's an email that I sent to lehman@qvt at 4:43  
15 PM but it's essentially a forward I received from Intesar  
16 Haider at 4:34 PM on Monday with bids/offers for QVT.

17 Q Okay, and is that your salesperson at Citi?

18 A Yes.

19 Q And is that the -- was it Citi who had the "due at 4:00  
20 PM" notation?

21 A I believe that's right.

22 Q And what time did this come in?

23 A This was 4:34 PM.

24 Q Okay, and on the second page of that exhibit --

25 A Yes.

1 Q -- at the bottom, it says: "Bid/Offeres are subject  
2 after 5:15 PM." What does that mean? What did you  
3 understand that to mean at the time?

4 A Sure. That means that, after 5:15 PM, the levels are  
5 no longer necessarily actionable levels and that he reserves  
6 the right to change his pricing.

7 Q And were those levels considered by QVT in connection  
8 with the market quotation process?

9 A Yes, they were.

10 Q Let me ask you to take a look at 1283. Can you  
11 identify that document?

12 A Sorry, 1283.

13 Q Claimant's Exhibit 1283.

14 A It's -- yes. Yes, this is an email I received from  
15 Paul Schauflin at 4:19 PM on September 15th. It was -- the  
16 subject was: "Barc 09/15/08 QVT WIC Due 4:15 PM.xls" and has  
17 an attachment of similar name, without the "Barc" part.

18 Q And did you tell Mr. Schauflin that his market  
19 quotation response was due by 4:15 PM?

20 A No, I did not.

21 Q What was attached to this?

22 A It was a spreadsheet.

23 Q And do you recall what the spreadsheet had on it?

24 A Yeah, it had levels.

25 Q And did QVT consider those levels in its market

1 quotation process?

2 A Yes.

3 Q Let me direct your attention to 1288. Can you identify  
4 that document?

5 A Yes. So, this is a document that I had sent to Rosario  
6 Alfonso, who is someone who worked at QVT on December 1st,  
7 2008, as well as lehman@qvt, which was essentially a forward  
8 of an email that I had received from Jaime Benjamin at J.P.  
9 Morgan at 6:09 PM on September 15th, 2008, subject was: "Re:  
10 BWIC-OWIC 08/09/15 3:00 PM Non-EM.xls." Jaime writes: "I  
11 will need to get Pits and Romans tomor. There are some  
12 Index trades which may line up. I could only get some  
13 levels from Fran and Edcu tonight.

14 Q And was there an attachment to that document?

15 A Yes, there was a spreadsheet.

16 Q And what did that contain?

17 A It also had some levels on our market quotation.

18 Q And were those levels considered by QVT in its market  
19 quotation process?

20 A Yes, they were.

21 Q All right, let me just show you one more. Claimant's  
22 Exhibit 1279.

23 A Yes.

24 Q Can you identify that document?

25 A 1279. Yes, it's an email that I send to Rosaria

1 Alfonso and also lehman@qvt on December 1st, 2008, which is  
2 a forward of an email that I received from Mike Homeier at  
3 4:05 PM on September 15th, titled: "Fwd: QVT BWIC-OWIC  
4 9/15/08.xls."

5 Q And do you know what was attached to that document?

6 A Yes. Those are Morgan Stanley levels.

7 Q Okay, let me ask you to take a look at 1402.

8 Claimant's Exhibit 1402.

9 A Yes.

10 Q And can you identify that?

11 A Yes, so that's a forward that I sent on September 16th  
12 at 3:48 PM to lehman@qvt, which was the forward of an email  
13 subject: "QVT quotes" that I had received from Mike Homeier  
14 on Tuesday, Sept 16th, 2008 at 5:54 AM, which was itself a  
15 forward of an email that he had received from T.J. Parmar at  
16 Morgan Stanley, that he had received at 9:25:54, "QVT  
17 quotes," where he says: "We can show offers on two of the  
18 three high yield index tranche trades that QVT has on. \$10  
19 million high yield four 10 to 15 and 10 million high yield  
20 three 10 to 15. My closing offers on these are," and then  
21 he provides offering levels for those two tranches.

22 Q Okay, and when did you receive this?

23 A So, I received it from Mike Homeier at -- on Tuesday,  
24 September 16th at 5:44 AM.

25 Q Okay, and with respect to both those levels and the

1 ones that you received the afternoon before, did QVT  
2 consider those in the market quotation process?

3 A Yes, we did.

4 Q Okay. So, let me just ask you some general questions  
5 now about the market quotation process. I think that you  
6 said that they came in over a period of time. Were any of  
7 the levels that were received over that period of time  
8 rejected by QVT for being late?

9 A No.

10 Q Or for any other reason

11 A No.

12 Q And was there anything -- well, did you believe when  
13 you sent out these market quotations that you were providing  
14 dealers sufficient time to respond?

15 A I didn't provide the deadline.

16 Q And was anything that you did in connection with the  
17 market quotation process intended to make it fail?

18 A No. We had wanted the process to succeed.

19 Q And was there any intentional delay in the process of  
20 soliciting those market quotations?

21 A No.

22 Q So, again, stepping back, you've got these market  
23 quotation responses. What did you do with them?

24 A So, ultimately, I compiled them and used them as part  
25 of our calculation statement and our claim with Lehman.



1 Q And for how many positions did you receive the required  
2 three market quotations?

3 A We received three on 12 positions, 12 of the --  
4 including QVT and Quintessence, so six underlying trades,  
5 but split across both funds.

6 Q And on your own positions, the ABS positions, did you  
7 get market quotations on some of them?

8 A Yes, in fact, the only market quotations we received  
9 were on ABS positions and those were the 12.

10 Q And did you get one or two market quotations on some of  
11 your positions?

12 A On the ABS positions?

13 Q Yes.

14 A Yes. For most positions, especially the non-IO  
15 positions, we received one or two quotes.

16 Q Okay, I'd like to turn to the process of the lost  
17 calculation, which we talked about briefly when you were  
18 previously on the stand. What was your role in connection  
19 with the lost calculation process?

20 A So, I created the first version of a template, or  
21 calculator or spreadsheet, to value the positions generally.  
22 I also was involved in discussions with the other portfolio  
23 managers about valuing the positions. I valued some of the  
24 positions myself, and then I ultimately aggregated all of  
25 the work that the other traders had done and compiled it

1 into one aggregate form.

2 Q And when did the process take place that you just  
3 described?

4 A So, it started as early as the 16th, when I started  
5 work on the template, but the process wasn't completed, at  
6 least the first -- at least, we didn't submit the  
7 calculation statement until October 15th, 2008.

8 Q And who else was involved in it besides yourselves?

9 A So, the other portfolio managers were Arthur Chu, Nick  
10 Brumm, Yi Cen, Tom Knox, Tracy Fu.

11 Q And was Mr. Gold involved in the process?

12 A No.

13 Q And did he give you any guidance as to how to do the  
14 loss calculation?

15 A I don't believe he did.

16 Q So, describe for the Court, if you would, how the  
17 process took place, you know, whether it was a group process  
18 or individual or how it worked.

19 A So, I started by creating a template and that template  
20 required that I determine the positions that were necessary  
21 to be valued, so I had done that. Then I created at least a  
22 first instance of it that I believe I discussed with at  
23 least one or more of the portfolio managers. That template  
24 then underwent a number of iterations before it was  
25 ultimately released to the portfolio managers to calculate

1 their valuations on the positions that were assigned to  
2 them, and then once they had completed their valuations,  
3 they had then saved them separately, and then I was tasked  
4 with aggregating them all into one central workbook and  
5 creating an aggregate claim calculation that referenced all  
6 the individual trader calculations.

7 Q Okay. May I show you a document -- I'd like to try to  
8 find an early version of that document that you referred to.  
9 Let me show you what's been marked as Claimant's Exhibit  
10 1552, if you can bring that up. Can we look at the metadata  
11 of that?

12 A Yes, I see it.

13 Q Do you have it?

14 A Yep.

15 Q And what does the metadata for this document state?

16 A So, it says that it was created on 9/16/2008 at 10:46  
17 AM. I am the author. It was last modified on September  
18 21st, 2008 and it's titled: "Lehman Claim-old.xls."

19 Q Okay, and can you identify where in the process this  
20 document -- well, first of all, did you create this  
21 document?

22 A Yes.

23 Q And can you describe for the Court when in the process  
24 you created it?

25 A So, as I mentioned before, I had started September 16th

1 with creating a template, and as the modified time says, I -  
2 - this document was last modified on September 21st, so it  
3 represented my first efforts of creating a template.

4 Q And so, when you say you created a template, is this  
5 what you're referring to?

6 A Yes.

7 Q And are you referring to a specific sheet in this  
8 workbook or more general?

9 A Yeah, so ultimately, the sheet that does all the work,  
10 for lack of a better term, is the Lehman Positions sheet,  
11 and it references some other sheets, primarily as source  
12 data, but then the Lehman Positions sheet is designed to do  
13 some calculations to arrive at marks, at least for certain  
14 securities.

15 Q Okay. Well, why don't we -- do you have control over  
16 it? Are you the one doing that?

17 A Yeah, sorry, I'm the one -- yeah, just meandering  
18 around the spreadsheet.

19 Q All right, cool. Could you maybe start at the left  
20 side and explain to the Court how this spreadsheet works,  
21 mathematically?

22 A Yes. So, the information on the left side of the  
23 screen is primarily descriptive information about the  
24 security. So, Column A is the account, Column B is the  
25 security in question, Column C is the notional or the

1 quantity, then there's some information about QVT market  
2 value and Lehman market value and then the difference.  
3 There's some descriptive information about the security,  
4 there's the strike or the spread at which the CDS was put  
5 on, there's the maturity of the CDS, then there are a couple  
6 of formulas that are currently not -- that are not working  
7 in this version of the sheet.

8 Basically, the factor and currency adjustment. The  
9 factor, as it may come up, is basically how much of the  
10 notional is still around, essentially. For the case of  
11 Corporates, it's usually either going to be one or zero, or  
12 more precisely, it'll be rather 1 percent or zero and it's  
13 just used to be able to calculate the -- such that when you  
14 multiply the price times the notional times the factor, you  
15 get to the right market value, but in the case of ABS  
16 securities, as there are pay downs, the factor will change.

17 So, for example, you have an ABS security, the  
18 underlying bond had a 50 percent write down because there  
19 were losses to the bond, you as a protection buyer, will  
20 have received a 50-point payment, and then the factor will  
21 drop down to half of what it was originally. But -- and  
22 then similarly, there's a currency adjustment that captures  
23 positions that are not in US dollars and makes the  
24 adjustment to US dollars. The next column says whether it's  
25 a long or short, i.e. whether we are long protection or

1 short protection. Then, the real calculation starts in  
2 Column V. So -- sorry, Column V as in Victor.

3 So, what this is doing, you can see that -- I'm just  
4 looking at Cell V4 as an example, and again, this formula  
5 isn't working because it's making reference to a QVT add-in,  
6 a function call that won't work outside of QVT. And -- but  
7 you can see what the function is doing, what the function  
8 call -- the formula says: "=CDS.getmarketspread(B4,B1)," so  
9 what this is doing is it's saying, go look for that TIFI  
10 that's referenced in B4 and tell me, what was the Markit  
11 Partners' spread on the date B1, which if you look here is  
12 9/15/08. What will the spread be to interpolate it to the  
13 maturity of the contract?

14 THE COURT: You just said something as if you were  
15 reading it.

16 MR. WOLLMAN: Yes.

17 THE COURT: Where is that?

18 MR. WOLLMAN: Oh, sorry. So, I'm just looking at  
19 -- so, if you look in V4?

20 THE COURT: Yes?

21 MR. WOLLMAN: If you click inside that cell --

22 THE COURT: Yes?

23 MR. WOLLMAN: -- you can see that there's a  
24 formula.

25 THE COURT: I can't see that. So, I can see --

1 so, is that what the exclamation point sign is?

2 MR. WOLLMAN: No, sorry. If you go to the top of  
3 the -- if I can move the mouse, I don't know if this is  
4 helpful. Over here, at the top of the screen --

5 THE COURT: Yeah, I see, thank you.

6 MR. WOLLMAN: In the FX?

7 THE COURT: FX, I got it. Thank you.

8 MR. WOLLMAN: Yeah. Sorry about that.

9 A So, yeah, so -- oops, did I just do something? Oh, I  
10 think I hit a -- sorry, I did not intend to surf the web  
11 right now.

12 (LAUGHTER IN THE COURTROOM)

13 A But yeah, I was trying to drill the formula a bit  
14 clearer, but maybe I really shouldn't be operating this.  
15 But, so the formula, if you look at that formula, it's  
16 making -- CDS is just -- just so you understand this  
17 convention, CDS is defining a group of functions. So,  
18 there's a group of functions that exist for CDS securities,  
19 one of which is GetMarketSpread, and on QVT's systems, what  
20 that would do is, it would say, go into the Markit Partners'  
21 database that we keep with all of the Markit Partners'  
22 spreads and look up into that database what the spread would  
23 have been on that date for that security interpolated to its  
24 maturity of, in this case, March 20th, 2010.

25 So, that will provide the spread, if there is Markit

1 Partner spread for that security. The next column is the W  
2 column, which shows the bid mid percentage. Here, you can  
3 see the formula is just very simply "=W1," which just means,  
4 set everything equal to that 15 percent. And then, what  
5 this next market mark formula is doing is, it's essentially  
6 just converting what would be a spread into a price terms,  
7 adjusting for that bid mid adjustment, depending upon  
8 whether it was -- it needed to adjust the spread higher if  
9 you were looking for an offer of protection or it needed to  
10 be lower if it was a sale protection.

11 Now, so then that produces what's effectively a price  
12 in Column X.

13 Q So -- and it works automatically?

14 A Yes.

15 Q So, if the functions worked, there would be a price in  
16 market mark?

17 A Correct. Assuming that it was able to successfully  
18 find a Markit Partner spread for that security, you would  
19 see a value in Cell B4 and then the value in -- then X would  
20 calculate properly, according to this formula.

21 Q Okay, and how does -- is that all this spreadsheet  
22 does?

23 A No, so that's --

24 THE COURT: Can I ask one --

25 MR. WOLLMAN: Sure.



1 THE COURT: So, it does that as of the moment that  
2 you're asking it to do it?

3 MR. WOLLMAN: Yes.

4 THE COURT: Are you telling it as of when to look?

5 MR. WOLLMAN: Right, so, the key parameter for the  
6 date is if we go back to that B4 formula, you'll see that  
7 the way the function works is it takes two arguments and  
8 CDS.getmarketspread takes B4 -- oh, I'm sorry. The formula  
9 is GetMarketSpread.

10 THE COURT: Right.

11 MR. WOLLMAN: It takes two arguments, the first  
12 one is B4, right, and B4 is just the TIFI. Now, although  
13 that's just the name, in QVT systems, there's information  
14 associated with that TIFI, so it knows what referenced  
15 entity to look at, it knows what restructuring clause, based  
16 upon the parameters that are described in Tyche, and it also  
17 knows what maturity the CDS has. So, there's a lot of  
18 information kind of wrapped up into that TIFI, but then the  
19 other argument it needs is V1, which is, what's the date  
20 that you want to look this up as of? And so, this would be  
21 as of 9/15. Now, therefore, at any point from 9/16 on,  
22 because you don't get Markit Partners information until the  
23 next day, at any point from 9/16 on, so long as there wasn't  
24 a change to the Markit Partners database, which there  
25 shouldn't be for historical calls, you will get the same

1 value when you call it as of 9/15.

2 THE COURT: Say that again, please?

3 MR. WOLLMAN: So, this is just -- so, the Markit  
4 Partners database just is --

5 THE COURT: It refreshes every 24 hours.

6 MR. WOLLMAN: Well, it adds a new entry every 24  
7 hours with a new date that has information about the  
8 spreads. And so, a particular date's information won't  
9 change --

10 THE COURT: Yes.

11 MR. WOLLMAN: -- over time, it'll just be the  
12 spread on that date. And then, so, anytime you go and look  
13 to that row, you're presumably always going to get the same  
14 answer. If you're looking for 9/15, any time after 9/16,  
15 you'll get the same value. Whatever row in that database  
16 corresponds to the 9/15 entry for that reference entity,  
17 that's the spread you'll get.

18 THE COURT: I'm asking a slightly different  
19 question, I apologize.

20 MR. WOLLMAN: Okay, sure.

21 THE COURT: I just want to understand how this  
22 works.

23 MR. WOLLMAN: Sure.

24 THE COURT: So, if, in Column V, when it says  
25 9/15/2008, obviously that's Lehman day --

1 MR. WOLLMAN: Correct.

2 THE COURT: -- right? So, is this asking it on  
3 Lehman day, Markit Partners, give me values as of that day?

4 MR. WOLLMAN: Yes.

5 THE COURT: Versus a week later, can you ask it,  
6 when you -- it's operating on 9/22, how does it know what  
7 date to pull out of Markit Partners?

8 MR. WOLLMAN: Sure. Sure. So, it's always going  
9 to use whatever is in Cell B1.

10 THE COURT: Thank you.

11 MR. WOLLMAN: So, B1 is never -- is always 9/15,  
12 you're always going to get a 9/15 date.

13 THE COURT: Thank you.

14 MR. WOLLMAN: I mean, if I changed this right now  
15 to be 9/16 and the thing worked, you would see the number  
16 changed.

17 THE COURT: Got it, thank you.

18 A So, that's how you get -- so, that's the market mark.  
19 Just, it's 9/15, 15 percent, you go through the calculation  
20 of spread to price and that's what you arrive at in Cell X4.

21 Q And so when -- just to be clear, so when you would have  
22 looked at this, say on 9/21, Column X, Row 4, would have a  
23 mark, which was for September 15th -- from the September  
24 15th Markit Partners spread plus a bid mid spread --

25 A Yes.

1 Q -- of 15 percent.

2 A Correct.

3 Q And that number would stay the same any day you look at  
4 it?

5 A Correct.

6 Q Okay. All right, so what else does this do?

7 A So, that's really the only automatic calculation that  
8 happens in the sheet. The other functionality that you have  
9 is the ability to override that Markit Partners calculation.  
10 So, you'll see that Column AD is where that happens. So, if  
11 there is a value in Column AD, whether it's referencing  
12 another -- so, for example, in -- I'm on Cell AD6, so  
13 there's nothing in AD4, so there's no override for A4. So  
14 as such, just to give you a little preview of what's to  
15 come, when you go to the calculation, you'll see that --  
16 well, you actually won't see because it's, again, not  
17 working, but the mark will take the Markit Partners mark  
18 because it has not been overridden. Right? So assume --  
19 the way that the logic in Column AL works, which is the way  
20 it calculates the mark -- if we just -- maybe actually, it  
21 makes sense to just talk about this now, just so it'll be  
22 clear when we look at it.

23 The logic in AL4 says, if AM4=manual, then use what's  
24 in AD4. So -- and I think there was some question about  
25 manual before. Basically, a manual is, if you put a value -

1 - I can show you why that's the case, but if you put a value  
2 in Column AD, that will cause it to be manual. In fact, if  
3 you go look at -- if you look at AM6 as an example, there  
4 was a value, and you'll see that it shows manual. So,  
5 basically, the way that the logic works is, if it's manual,  
6 then you use what's in AD4. If it's not manual, then look  
7 and see if it's Markit, and if it is Markit, use the Markit  
8 value, which was in Column X, so it's Cell X4, which is what  
9 we just talked about before, and if it's -- and then -- oh,  
10 sorry, just lost it. And if not, then basically, return an  
11 error.

12 So, basically, if it's not manual and there's no Markit  
13 Partners information, well, then you haven't given it a  
14 price, and so it's complaining to you that it's just  
15 errored. So, the logic in the spreadsheet is, if you have  
16 an override, use it. If you don't have an override, use  
17 Markit Partners, and if you don't have Markit Partners,  
18 well, then, you better go find something.

19 Q Okay. Can you go to the right?

20 A Sure. Keep going?

21 Q Yeah, keep going. And so, just to be clear, AN would  
22 be the final claim value?

23 A Right, and to be clear, what this is -- so, the claim,  
24 as it's calculated here, is the claim in excess of what's in  
25 H4, and H4 is, if we go all the way to the left, is the

1 Lehman price. So, basically, this is, what would the claim  
2 be on top of -- to the extent that this Lehman price  
3 reflects margin that we have against Lehman, the claim is  
4 how much additional loss do we have, relative to where we  
5 were margined.

6 Q So, that would be the net after offsetting margins?

7 A Correct.

8 Q Okay. And just keep going. Is there anything else?

9 A I can discuss the types of -- maybe it makes sense just  
10 to quickly talk about the types of overrides that are in  
11 existence on this sheet? You can see that, basically, the  
12 primary one is -- maybe I can filter, but the primary thing  
13 that's pre-populated is List. So, this is looking up into  
14 the various market quotation sheets that we received, pre-  
15 populating the sheet with market quotations, even if we  
16 didn't get three, basically, values that we received back.  
17 So, that's one override that's pre-populated. Another  
18 source of override, as I scroll down, is some losses where  
19 it just -- where it uses some broker runs. So, for example,  
20 let me see where -- if I can go down. So, as you can see,  
21 most of these are List. At least, I believe there are  
22 broker runs on this. Yeah, for example, on CDX3, you'll see  
23 that there's, in Column AE, reason is Goldman run, and  
24 you'll see a spread and recovery that correspond to a spread  
25 and recovery that we would have received on a Goldman run.

1           The purpose of this is to show, as a template, to show  
2       various types of things that you can use as overrides. So,  
3       here you see the list, where we got market quotation  
4       responses as well as various broker runs, pre-populated,  
5       although there are not that many, and just sort of showing  
6       how the replacement override works, that you can just kind  
7       of put in a value there and it will then go ahead and  
8       override any Markit Partners value.

9       Q     And in setting up this template, were you deciding  
10      which price source should be used for these positions?

11      A     I wasn't explicitly deciding any price source. All I  
12      was saying -- I wasn't posing a logic here, which is to say  
13      that, if you are overriding something, it's the override  
14      that counts, but if you're not overriding it, use Markit  
15      Partners and otherwise, you have to provide something else.  
16      So, I'm certainly not specifying which override to use, but  
17      just the way that this sheet works mechanically is that, in  
18      the absence of an override, it will -- and Markit Partners  
19      exist, that is what it will use. Otherwise, you need to  
20      give it an override, but that's the extent to which there's  
21      any you know, hierarchy imposed.

22      Q     And so, now, stepping back, what was the purpose of  
23      creating this template?

24      A     So, at this point, this would have been -- and again,  
25      the purpose of this was to have a sheet that I could talk

1 about with the other portfolio managers as a tool for  
2 calculating the claim, so these are certain types of things,  
3 for example, as you see on the sheet, there's no replacement  
4 trades on here, there isn't even the ability to change the  
5 Markit Partners date, there's a 15 percent assumption in  
6 here for bid mid. So, this is kind of a tool for doing a  
7 calculation that was to form the basis of discussion around  
8 what sets of procedures we wanted put in place.

9 Q Okay.

10 A It's effectively a calculator, and then the question  
11 is, how are we going to use this calculator?

12 Q Okay, and did you have discussions with your partners  
13 about how to move forward from this template?

14 A Yes, I did.

15 Q And what were those discussions?

16 A So, there were some group discussions, I believe there  
17 were also some one-on-one discussions about ways that the  
18 sheet operated and how we might go ahead, you know, changing  
19 aspects of it. I sort of already pointed out some of the  
20 differences in this sheet versus what the sheet ultimately  
21 becomes, and those changes were largely the result of  
22 discussions with my partners. So, moving from a 15 percent  
23 default to a 10 percent default, having the ability to use  
24 Markit Partners dates other than 9/15, putting in  
25 replacement trades, recognizing that certain portfolio



1 managers would need additional calculation sheets in order  
2 to calculate their values for things that are not as easy as  
3 getting a broker run or using Markit Partners. So -- but  
4 this was sort of an early iteration of this process that  
5 ultimately gets refined after discussions with others.

6 Q Okay. So, after those discussions with others that you  
7 just described, what was the next step?

8 A Well, so once the sheet was kind of, more or less  
9 agreed upon, at least as a calculator and how it would work,  
10 the individual portfolio managers were asked to take an  
11 instance of the sheet, copy it as their own, value their  
12 positions and then let me know when they were done, and then  
13 I would then take all those sheets and aggregate them into  
14 one big sheet.

15 Q And when you say "this sheet," were you referring to  
16 the Lehman Positions sheet?

17 A Right. Not as it exists in this particular  
18 spreadsheet. As I said, this is an early instance of it,  
19 but the final version of this document that would have also  
20 had something called Lehman Positions in it, that sheet.  
21 So, they would have taken the whole workbook, put in the  
22 inputs into the sheet that they needed to do in order to  
23 calculate it, I would then sort of do all the plumbing of  
24 extracting their sheets and any dependent sheets, and then  
25 pulling all of this together into one main sheet that would

1 calculate effectively for all the individual sheets and then  
2 aggregate back.

3 THE COURT: That's what ultimately, we now call  
4 the Lehman Master?

5 MR. WOLLMAN: Correct.

6 A The Lehman -- so, that workbook has all the different  
7 sheets that the traders created. I literally dragged those  
8 sheets in and then the Lehman Positions Master tab was  
9 created that is just a fancy lookup into -- maybe not even  
10 that fancy, into the underlying trader sheets.

11 Q Okay, so we'll go to that now, briefly. But before we  
12 do, can you just move over to BB? There was some  
13 questioning, I think, at some point about BB, Boy, Boy?

14 A Yes.

15 Q What is Column BB on this spreadsheet?

16 A Right, so, here it's just hard coded values. And  
17 obviously, this is a spreadsheet that was modified -- last  
18 modified on 9/21/08 and it has as its title, "Level on  
19 9/21/08," so at some point on 9/21/08, the calculation that  
20 would have worked in this sheet would have produced a value  
21 in AN, and I believe that those AN values are hard coded in  
22 BB as just sort of a reference point. I can't be sure  
23 because when I calculate it, it actually doesn't quite match  
24 the values, so I don't know exactly at what point on 9/21 it  
25 was done, but that's the nature in which it's operating.

1 Q Okay. Okay, so, let's move to the Lehman workbook that  
2 we marked as Claimant's Exhibit 2108. And maybe what would  
3 help is if you could describe how it changed from what we  
4 just looked at.

5 A Sure. So, there are -- okay, so first of all, there  
6 are some additional tabs that are not referenced in that  
7 workbook, and I think I've touched upon this briefly the  
8 first time I was up here, but I'll do a quick recap, which  
9 is, so, Lehman Positions Master here, instead of doing any  
10 actual calculations for most of the sheet, there are some  
11 calculations done (indiscernible) but for most of the sheet,  
12 it's really, as you can see over here -- oh, sorry, this is  
13 now hidden because of earlier hiding. Let me unhide some of  
14 this. That didn't work. Let's try that again. Okay.

15 THE COURT: He broke it.

16 MR. TRACEY: That worked.

17 (LAUGHTER IN THE COURTROOM)

18 MR. TRACEY: He doesn't work after 5:45.

19 THE COURT: If you think it's a good stopping  
20 point, it's up to you.

21 MR. TRACEY: It probably is.

22 THE COURT: It probably -- it seems like it's a  
23 good stopping point before we embark on this, so, you get  
24 ten minutes back, Mr. Wollman. So, we agreed on 9:30  
25 tomorrow morning?

1 MR. TRACEY: Thank you, Your Honor.

2 THE COURT: Okay. All right, very good, thank you  
3 folks. Mr. Wollman, you remain under oath overnight, which  
4 means not to discuss the case or your testimony with anyone,  
5 all right? Thank you folks very much. Thank you.

6

7 (Whereupon these proceedings were concluded at 5:49 PM.)

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C E R T I F I C A T I O N

I, Sonya Ledanski Hyde, certified that the foregoing  
transcript is a true and accurate record of the proceedings.

Sonya Ledanski  
Hyde

Digitally signed by Sonya Ledanski Hyde  
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